EXECUTED COPY

As filed with the Securities and Exchange Commission on September 18, 1986

Registration No. 33-8853

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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Form S-1

REGISTRATION STATEMENT

Under

THE SECURITIES ACT OF 1933

SEP 18 1986 FEE 37

ATARI CORPORATION

(Exact name of registrant as specified in its charter)

Nevada	3573	77-0034553
(State of incorporation)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer identification number)

SIC 7372

1196 Borregas Avenue
Sunnyvale, California 94088-3427 (408) 745-2000
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

JACK TRAMIEL
1196 Borregas Avenue
Sunnyvale, California 94088-3427 (408) 745-2000
(Name, address including zip code, and telephone number, including area code, of agent for service)

Copies to:

BRUCE L. GITELSON
Gibson, Dunn & Crutcher
One Almaden Boulevard, Suite 1000
San Jose, California 95113
(408) 998-2000

JOSEPH A. MULLINS
Cravath, Swaine & Moore
One Chase Manhattan Plaza
New York, New York 10005
(212) 422-3000

Approximate date of commencement of proposed sale to the public: As soon as practical after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be registered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☐

CALCULATION OF REGISTRATION FEE

Title of Securities Being Registered	Shares Being Registered(1)	Proposed Maximum Offering Price Per Share(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Common Stock ($.01 par value)	5,175,000	$13.50	$69,862,500	$13,973

(1) Includes 675,000 shares that the Underwriters have the option to purchase to cover over-allotments, if any.
(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

THIS IS PAGE ONE OF 395 PAGES
EXHIBIT INDEX LOCATED AT PAGE 59

ATARI CORPORATION

CROSS REFERENCE SHEET

Showing Location of Items in Prospectus Required by Items of Form S-1

Item	Heading in Prospectus
1. Forepart of the Registration Statement and Outside Front Cover Page of Prospectus	Outside Front Cover Pages of Registration Statement and Prospectus
2. Inside Front and Outside Back Cover Pages of Prospectus	Inside Front and Outside Back Cover Pages
3. Summary Information, Risk Factors and Ratio of Earnings to Fixed Charges	Prospectus Summary; The Company; Risk Factors
4. Use of Proceeds	Use of Proceeds
5. Determination of Offering Price	Underwriting
6. Dilution	Dilution
7. Selling Security Holders	Principal Shareholders; Underwriting
8. Plan of Distribution	Cover Page; Underwriting
9. Description of Securities to be Registered	Description of Capital Stock — Common Stock
10. Interests of Named Experts and Counsel	Not applicable
11. Information with Respect to the Registrant	Cover Page; Prospectus Summary; The Company; Risk Factors; Selected Financial Data; Management's Discussion and Analysis; Business; Management — Directors and Executive Officers, Compensation and Certain Transactions; Principal Shareholders; Description of Capital Stock; Underwriting; Financial Statements
12. Disclosure of Commission Position on Indemnification for Securities Act Liabilities	Not applicable

A registration statement relating to these securities has been filed with the Securities and Exchange Commission but has not yet become effective. Information contained herein is subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

PRELIMINARY PROSPECTUS DATED SEPTEMBER 18, 1986

4,500,000 Shares

ATARI®

ATARI CORPORATION

Common Stock

Prior to this offering there has been no public market for the Common Stock. See "Underwriting" for factors considered in determining the initial public offering price, which is anticipated to be between $11.50 and $13.50 per share.

The Company intends to apply to list the Common Stock on the American Stock Exchange.

AN INVESTMENT IN THESE SECURITIES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS."

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	*Underwriting Discounts and Commissions (1)*	*Proceeds to Company (2)*
Per Share	$	$	$
Total Minimum	$	$	$
Total Maximum (3)	$	$	$

(1) See "Underwriting."

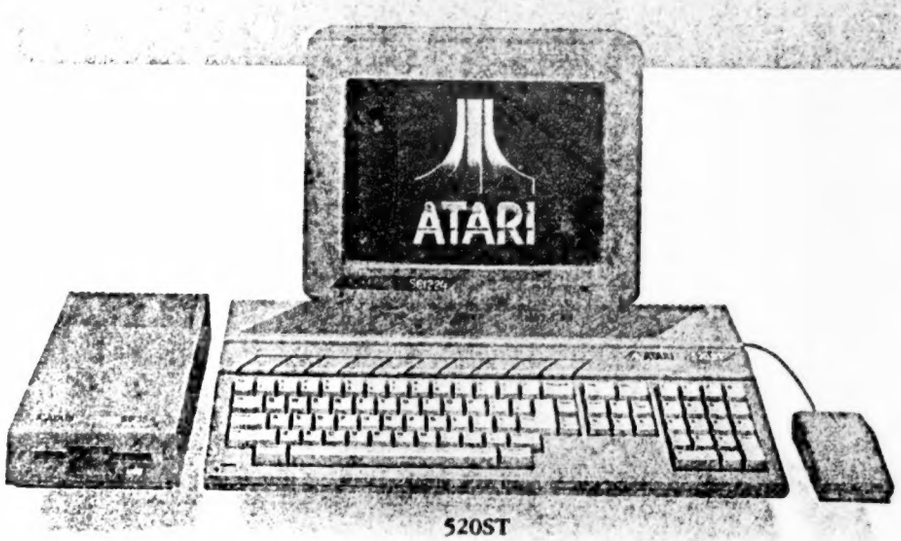
(2) Before deducting expenses of the offering estimated at $, payable by the Company.

(3) Assuming exercise in full of the 30-day option granted by the Company and by certain Contingent Selling Shareholders to the Underwriters to purchase up to an additional 675,000 shares, on the same terms, solely to cover over-allotments. If the option is exercised in full, in addition to the maximum proceeds to the Company, the Contingent Selling Shareholders will receive $. See "Principal Shareholders" and "Underwriting."

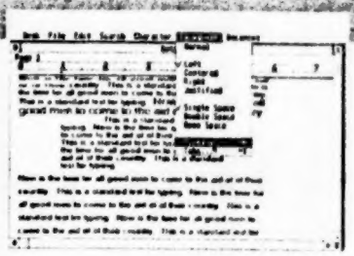
The shares are offered by the several Underwriters, when, as and if delivered to and accepted by them and subject to their right to reject orders in whole or in part. It is expected that delivery of the shares will be made on or about , 1986.

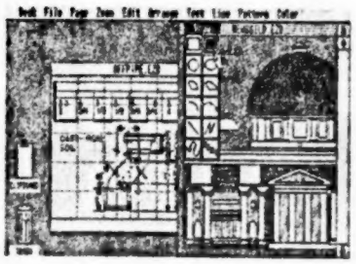
PaineWebber
Incorporated

The date of this Prospectus is , 1986

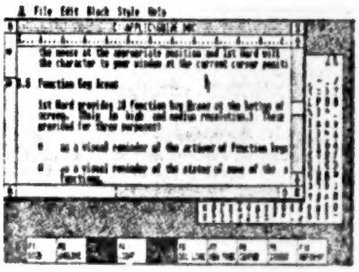


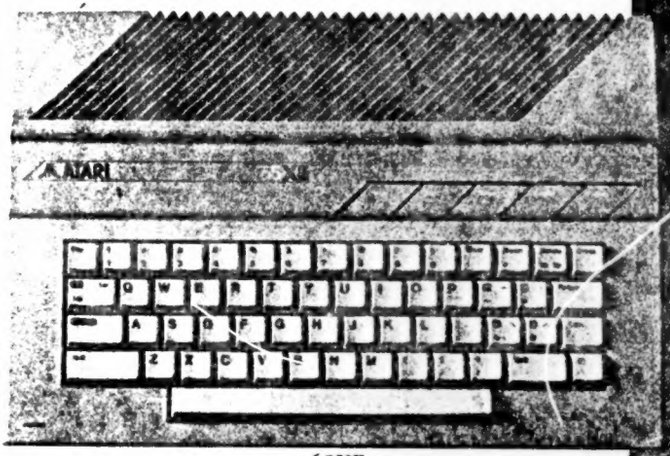
520ST



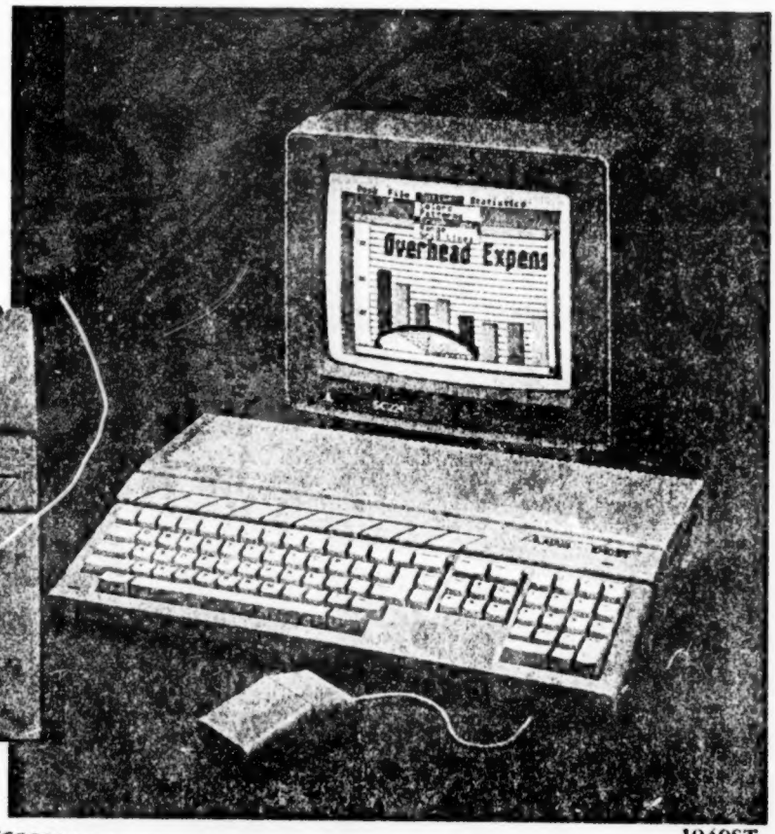


Atari line of Computer Systems.

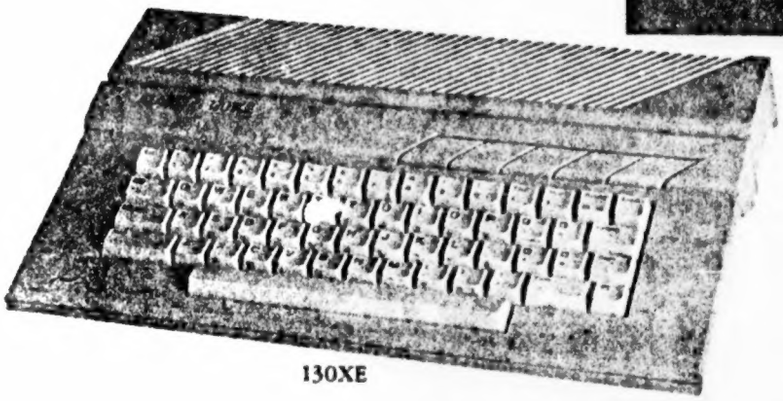




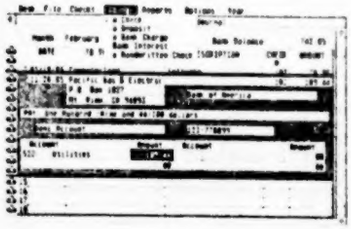
65XE



1040ST



130XE



PROSPECTUS SUMMARY

This summary is qualified in its entirety by the detailed information and financial statements set forth elsewhere in this Prospectus. Prospective investors should carefully consider the information set forth under "Risk Factors." Information in this Prospectus has been adjusted to reflect a one-for-two reverse Common Stock split, effective September 12, 1986.

THE COMPANY

Atari Corporation (the "Company") develops, manufactures and markets microcomputer systems for personal and business use and video game systems, designed to offer advanced technology at low prices. The Company was founded in May 1984 by Jack Tramiel, founder and former Chief Executive Officer of Commodore International Limited. In July 1984, the Company acquired from certain associated entities of Warner Communications, Inc. (collectively referred to as "WCI") certain assets, including 8-bit microcomputer and video game system inventories and the right to use the Atari name and logo, and assumed certain liabilities. See "Business — The WCI Transaction." Substantially all of the Company's revenues from its inception through June 1985 resulted from liquidation of the microcomputer and video game system inventories included in the assets acquired from WCI.

In June 1985 and January 1986 the Company introduced its first 16/32-bit microcomputer systems, the 520ST and the 1040ST. The Company's business strategy is to offer in the ST series advanced microcomputer memory capacity and processing speed technology and to price the ST series as an industry leader based on price-to-memory capacity and price-to-processing speed. The Company believes the 1040ST to be the first microcomputer offering more than one million bytes of internal memory (as much as the Apple Macintosh Plus and more than the standard IBM PC-AT and Commodore Amiga) at a manufacturer's list price of less than $1,000. The Company's ST computers also feature color and high resolution graphics; easy-to-use operating features; and processing speed equalling or exceeding that of any standard 16/32-bit configuration IBM, or any Apple or Commodore microcomputer, as well as those of the Company's other principal competitors, at lower suggested retail prices than these competing products, comparably equipped.

The 520 ST was recently voted "Computer of the Year" by the pan-European computer magazine publishers and "Computer Value of the Year" by *InfoWorld* magazine. As of September 15, 1986, the Company had sold over 150,000 ST computer systems worldwide.

The Company also manufactures and markets 8-bit personal computers and home video game systems. The Company's 65XE and 130XE 8-bit personal computers compete with the Commodore 64 and Apple IIe 8-bit personal computers, for the entry-level computer user, at lower suggested retail prices.

The Company believes that it is the largest seller of video game systems in the United States. Its video game system product line consists of the 2600 VCS and the 7800 ProSystem, which offers enhanced graphics for recently introduced arcade-quality games. Both systems are compatible with an existing video game library of several hundred titles.

Since July 1984, WCI has advanced approximately $24.7 million of working capital to the Company for payment of certain liabilities assumed in the 1984 asset acquisition. Concurrently with the consummation of this offering, the Company will issue to WCI 7.1 million shares of Common Stock and pay to WCI approximately $36.1 million as the purchase price of net assets acquired from WCI and in satisfaction of WCI's working capital loans to the Company and accrued interest. See "Business — The WCI Transaction."

The Company intends to distribute to its shareholders annual reports containing audited consolidated financial statements and quarterly reports containing unaudited consolidated financial information for each of the first three quarters of each fiscal year.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE AMERICAN STOCK EXCHANGE OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE OFFERING(1)

Common Stock offered	4,500,000 shares
Common Stock to be outstanding after the offering	28,262,350 shares
Use of proceeds	To repay indebtedness and to increase working capital.
Proposed American Stock Exchange symbol	ATC

SUMMARY FINANCIAL INFORMATION

(In thousands, except per share amounts)

	May 17, 1984 (Inception) to Dec. 31, 1984	Year Ended Dec. 31, 1985	Six Months Ended June 30, 1985	Six Months Ended June 30, 1986
Statement of Operations Data:				
Net sales:				
New and redesigned products	$ 16,115	$ 47,817	$ 6,766	$ 89,069
Purchased products	94,565	94,170	40,886	16,517
Total	110,680	141,987	47,652	105,586
Operating income (loss)	(61,455)	(25,819)	(26,336)	16,879
Income (loss) before extraordinary credit	(62,758)	(14,314)	(26,675)	8,467
Net income (loss) (2)	(62,758)	(14,314)	(26,675)	12,400
Per share data (3):				
Income (loss) before extraordinary credit	$ (2.78)	$ (.62)	$ (1.18)	$ .38
Net income (loss) (2)	(2.78)	(.62)	(1.18)	.56
Number of shares used in the computation (3)	22,554	23,033	22,593	23,762

Balance Sheet Data:

	June 30, 1986	
	Pro Forma (4)	Pro Forma As Adjusted (1)(4)(5)
Working capital	$ 40,654	
Total assets	134,288	
Long-term obligations including current portion	40,241	
Shareholders' equity	17,175	

(1) Assumes the Underwriters' over-allotment option will not be exercised. Unless otherwise indicated, information in this Prospectus does not give effect to the exercise of the Underwriters' over-allotment option.

(2) Results for the six months ended June 30, 1986 include an extraordinary credit of $3,933,000 ($.18 per share) from the use of net operating loss carryforwards. See Notes 1 and 8 to Financial Statements.

(3) Per share computations for all periods include 7.1 million shares to be issued to WCI concurrently with completion of this offering. Per share computations for the six months ended June 30, 1986 include income before extraordinary credit of $.02 per share and net income of $.04 per share resulting from satisfaction of interest expense related to working capital loans from WCI by issuance of a portion of these shares. See "Business — The WCI Transaction" and Note 1 to Financial Statements.

(4) Reflects partial payment of the purchase price of net assets acquired from WCI and satisfaction of approximately $24.7 million of obligations to WCI and accrued interest by issuance of shares of Common Stock. See "Business — The WCI Transaction" and Notes 2, 5 and 9 to Financial Statements.

(5) Adjusted to reflect the sale by the Company of 4.5 million shares of Common Stock offered hereby and application of the estimated net proceeds from the sale. See "Use of Proceeds" and "Capitalization."

THE COMPANY

Atari Corporation develops, manufactures and markets microcomputer systems for personal and business use and video game systems, designed to offer advanced technology at low prices. The Company was founded in May 1984 by Jack Tramiel, founder and former Chief Executive Officer of Commodore International Limited. In July 1984, the Company acquired from WCI certain assets, including Atari 8-bit microcomputer (models 600XL and 800XL) and video game (models 2600 and 5200) inventories and the right to use the Atari name and logo, and assumed certain liabilities. See "Business — The WCI Transaction." Substantially all the Company's revenues from its inception through June 1985 resulted from its liquidation of the microcomputer and video game system inventories included in the assets acquired from WCI.

In June 1985, the Company introduced the 520ST, its first 16/32-bit microcomputer system, and, in January 1986, it introduced the 1040ST 16/32-bit system. In 1985, the 520 ST was voted "Computer of the Year" by the pan-European computer magazine publishers and "Computer Value of the Year" by *InfoWorld* magazine. As of September 15, 1986, the Company had sold over 150,000 ST systems worldwide.

The Company's business strategy is to offer in the ST series advanced microcomputer memory capacity and processing speed technology and to price the ST series as an industry leader based on price-to-memory capacity and price-to-processing speed. The Company believes the 1040 ST to be the first microcomputer offering more than one million bytes of internal memory (as much as the Apple Macintosh Plus and more than the standard IBM PC-AT and Commodore Amiga), at a manufacturer's list price of less than $1,000. The Company's ST computers also feature color and high resolution graphics; easy-to-use operating features; and processing speed equalling or exceeding that of any standard 16/32-bit configuration IBM, or any Apple or Commodore microcomputer, as well as those of its other principal competitors, at lower suggested retail prices than these competing products, comparably equipped.

Within the next twelve months, the Company intends to introduce additional microcomputer enhancements using the current ST operating system and compatible with current ST applications software, including products offering additional internal memory capacity and substantially enhanced color resolution and spectrum capacity; a dedicated graphics co-processor that will generate graphics at up to five times current speeds; and a UNIX-based multi-user, multi-tasking microcomputer system.

In early 1985, the Company introduced its own 8-bit computer lines targeted for the entry-level computer user: the 65XE, offering 64K of internal memory, and the 130XE, offering 128K of internal memory, at retail prices generally less than $100 and $150, respectively. The 65XE and 130XE are compatible with several hundred software titles written for the 600XL and 800XL computer inventories acquired from WCI.

The Company believes that it is the largest seller of video game systems in the United States. Its video game system line consists of the 2600 VCS and the 7800 ProSystem. The 2600 VCS, a re-engineered and redesigned version of the product inventory acquired from WCI, was introduced in late 1984 and generally retails for less than $50. The Company's 7800 ProSystem, first offered in May 1986, features enhanced graphics for recently introduced arcade-quality video games and generally retails for less than $100. Both video game systems are compatible with an existing library of several hundred video games.

Since July 1984, WCI has advanced approximately $24.7 million of working capital to the Company for payment of certain liabilities assumed by the Company in the 1984 asset acquisition. Concurrently with the consummation of this offering, the Company will issue to WCI 7.1 million shares of Common Stock and pay to WCI approximately $36.1 million (including interest at 17%) as the purchase price of the net assets acquired from WCI in the 1984 transaction and in satisfaction of WCI's subsequent working capital loans to the Company and accrued interest. The Company's 1984 purchase of assets from WCI, the payment of the purchase price and the repayment of working capital loans from WCI are referred to in this Prospectus as the "WCI Transaction." See "Business — The WCI Transaction."

The Company was incorporated in Nevada in May 1984. Its principal executive office is located at 1196 Borregas Avenue, Sunnyvale, California 94088-3427. Its telephone number is (408) 745-2000.

The following trademarks appear in this Prospectus: IBM, IBM PC, IBM PC-XT 286 and IBM PC-AT, owned by International Business Machines Corporation ("IBM"); Apple, Apple IIe, Apple IIgs, Macintosh and Macintosh Plus, owned or licensed by Apple Computer, Inc. ("Apple"); Commodore, Commodore 64 and Commodore Amiga, owned by Commodore International Limited ("Commodore"); Leading Edge Model D, owned by Leading Edge Hardware Products, Inc.; Tandy 1000 EX, owned by Tandy Corporation ("Tandy"); Compaq Deskpro 286, owned by Compaq Computer Corporation ("Compaq"); Kaypro 286i, owned by Kaypro Corporation; GEM, owned by Digital Research, Inc.; Microsoft WRITE, owned by Microsoft Corporation; VIP Professional, owned by VIP Software, Inc.; DB Man, owned by Versasoft Corporation; dBASE III, owned by Ashton-Tate; InfoWorld, owned by C W Communications Inc.; Lotus 1-2-3, owned by Lotus Development Corporation; UNIX, owned by Bell Telephone Laboratories, Incorporated; and Atari, 520ST, 1040ST, 65XE, 130XE, 600XL, 800XL, 2600 VCS, and 7800 ProSystem, owned by Atari Corporation.

RISK FACTORS

Prospective investors in the Company should carefully consider, among other things, the following factors regarding the Company and its business:

Industry Trends. Unit sales of personal computers in the United States declined during 1984 from the prior year and grew moderately in 1985. Although moderate unit sales growth has been forecast for 1986, it has been predicted that, as the result of price competition, U.S. dollar sales of personal computers will rise modestly, if at all. It cannot now be determined whether this change is cyclical or evidences a long-term trend toward slower growth in unit and dollar sales of personal computers.

Short Operating History. The Company commenced operations in the second quarter of 1984 and introduced its ST series of computers in June 1985 and January 1986. The Company incurred cumulative losses through December 31, 1985 of $77,072,000. Although the Company reported a profit for the six months ended June 30, 1986, results of the Company's operations for this interim period are not necessarily indicative of the results that might be expected for the entire fiscal year. Operating results for future periods are subject to numerous risks and uncertainties, and there can be no assurance that the Company will achieve continuous profitable operations.

Competition. The personal computer and entertainment electronics industries are intensely competitive and are characterized by constant introduction of new products, rapidly declining prices and advancing technologies. In sales of its microcomputers, the Company competes with larger companies, such as IBM, Apple, Commodore, Tandy and Compaq, that have well established product lines, dealer acceptance, software support and customer loyalty, and materially greater resources than the Company, as well as with numerous other domestic and international distributors of IBM-compatible and other personal computers. The Company's computers do not use the MS-DOS operating system and are therefore not compatible with the IBM PC, which dominates the business market for personal computers. Increased availability of low-priced IBM compatible computers; recent material PC price reductions by IBM; and recently announced new product introductions by IBM, Apple, Tandy and Compaq could force further price reductions for the Company's products and reductions in the Company's profit margins. See "Business — Competition."

Necessity for New Products. Continual technological developments, which make existing computers vulnerable to early obsolescence, and continuing competitive price reductions in the personal computer and entertainment electronics industries will require that the Company create and market new computer and entertainment electronics products at low prices and continue to reduce prices of its existing products. The Company will be required to incur substantial expenditures in research and development of new products before market acceptance of any such products can be assessed. There can be no assurance that such products will achieve market acceptance.

Necessity for Additional Applications Software. Availability of applications software is a material factor in consumer selection among competing microcomputer products. As of September 15, 1986 approximately 300 software products were available for the Company's ST computers from independent vendors in the United States and a similar number were available from developers outside the United States. Most of the Company's major competitors have larger available software libraries. Accordingly, continued third party development of applications software for the Company's computers is critical to future market

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acceptance of its products. Although the Company attempts to encourage such development, it competes for software developers' resources with competitors having substantially greater market share and installed product base, and will have no control over the pace of continued applications software development for its products.

Competition for Sales Channels. The Company sells its microcomputer products primarily to independent computer specialty dealers (who usually also carry competing microcomputer products) and, in the case of the 520 ST and the XE series, to national retailers, for resale to end-users. Maintenance and growth of these relationships is essential to growth of the Company's sales. Competition for these dealers' and retailers' shelf space is intense. The Company's existing independent dealers and retailers are not committed to carry the Company's computers, and competitive factors could cause them to change to the products of another manufacturer at any time.

Dependence on Key Personnel. The Company's success depends on the management skills of its executive officers, who, collectively, are its principal shareholders, and on its management team, which includes key employees with extensive prior experience in the microcomputer industry. Loss of the services of a significant number of the executive officers or of these key employees would have a material adverse effect on the Company. The computer and entertainment electronics industries are characterized by a high level of employee mobility and aggressive recruiting of skilled personnel among competitors. The Company competes with many other companies that have much greater financial and other resources for attracting and retaining qualified engineering and management personnel with the experience, creativity and qualifications required by the Company. The ability to continue to locate, hire, train and retain such personnel is essential to the Company's continued product development efforts and growth. See "Management."

Dependence on Single Manufacturing Facility. The Company's manufacturing is centralized at its facility in Tam-Shui, Taiwan. Accordingly, the Company is subject to risks of economic and political disruptions, transportation time and delays, labor strikes, changes in laws and government policies, the imposition of duties, and import and export controls in Taiwan. See "Business — Manufacturing."

Voting Control. Upon conclusion of this offering, the Tramiel family will beneficially own approximately 53% of the Company's Common Stock. The Company's Articles of Incorporation do not provide for cumulative voting in the election of directors. Therefore, after this offering, the Tramiel family will be able to elect all of the Company's directors and to control the Company. See "Principal Shareholders."

Shares Eligible for Future Sale. Commencing 90 days after completion of this offering, approximately 489,143 shares of Common Stock owned by existing shareholders will be eligible for sale, from time to time, in the public securities market subject to the restrictions of Rule 144. Commencing 180 days after completion of this offering, an additional approximately 21,133,000 shares of Common Stock owned by principal shareholders and WCI will become eligible for sale subject to the restrictions of the Rule. In addition, WCI holds certain piggyback and demand registration rights with respect to its shares of Common Stock received in the WCI Transaction. See "Business — The WCI Transaction." Sale of such shares in whole or in part, or even the fact that they are available for sale, may have an adverse effect upon the market price of the Common Stock. See "Principal Shareholders — Shares Eligible for Future Sale."

USE OF PROCEEDS

The net proceeds to the Company from the sale of the shares of Common Stock, after deducting the expenses of the offering, are estimated to be $ ($ if the over-allotment option is exercised in full). Approximately $ of that amount will be used to repay indebtedness, including $36.1 million of acquisition indebtedness (including interest at 17%) to WCI. See "Business — The WCI Transaction." The balance of such proceeds will be used to increase the Company's working capital. Specific uses of working capital will depend upon business conditions. Pending such applications, the net proceeds will be invested in short-term interest-bearing obligations.

The Company will not receive any portion of the proceeds from sales of shares by the Contingent Selling Shareholders in the event the Underwriters' over-allotment option is exercised. See "Principal Shareholders" and "Underwriting."

DIVIDEND POLICY

The Company has not paid cash dividends and currently intends to retain future earnings to finance the development and expansion of its business.

DILUTION

At June 30, 1986, the Company had a pro forma net tangible book value of $17,175,000 (approximately $.73 per share of Common Stock) after giving effect to the issuance of 7.1 million shares of Common Stock as part of the WCI Transaction. See Notes 2, 5 and 9 to Financial Statements and "Business — The WCI Transaction." Without taking into account any other changes in net tangible book value subsequent to June 30, 1986, other than giving effect to the sale of 4.5 million shares offered by this Prospectus and the application of the net proceeds of such sale, the Company's pro forma net tangible book value at June 30, 1986 would have been $, or $ per share. This represents an immediate increase in net tangible book value of $ per share to existing shareholders and an immediate dilution of $ per share to purchasers of the shares of Common Stock in this offering. The following table illustrates this per share dilution:

Public offering price per share		$
Pro forma net tangible book value per share as of June 30, 1986 (1)	$.73	
Increase in net tangible book value per share attributable to investment by purchasers		
Pro forma net tangible book value per share giving effect to this offering		
Immediate dilution to purchasers		$

(1) Pro forma net tangible book value per share is determined by dividing the number of shares of Common Stock outstanding after giving effect to the issuance of 7.1 million shares of Common Stock to WCI in the WCI Transaction, into the pro forma net tangible book value of the Company (total assets less total liabilities).

The following table summarizes as of the consummation of this offering the differences between existing shareholders, including WCI, and the new purchasers with respect to the number of shares of Common Stock acquired from the Company, the total consideration paid and the average consideration per share.

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Current shareholders (1)	23,762,350	84.1%	$87,827,000	%	$3.70
Purchasers in this offering	4,500,000	15.9			$
Total	28,262,350	100.0%	$	100%	

The data in the above tables assumes no exercise of outstanding stock options. See "Management — Stock Option Plan."

(1) The consideration paid by WCI has been valued at $54.0 million, which represents (i) the value of the net assets acquired less the value of the cash portion of the purchase price at the date of acquisition, plus (ii) the working capital loans (including accrued interest).

CAPITALIZATION

The following table sets forth the unaudited pro forma consolidated capitalization of the Company at June 30, 1986, giving effect to the issuance of 7.1 million shares of Common Stock to WCI as part of the WCI Transaction, and as adjusted to give effect to the sale by the Company of 4.5 million shares of Common Stock pursuant to this offering and the application of the estimated net proceeds from the sale, including the payment of approximately $36.1 million to WCI as part of the WCI Transaction. See Notes 2, 5 and 9 to Financial Statements and "Business — The WCI Transaction."

	Pro Forma	Pro Forma As Adjusted
	(dollars in thousands)	
Current maturities of long-term obligations	$ 4,716	$
Long-term obligations, excluding current maturities (1):		
Obligation due WCI	$34,182	$ —
Other obligations	1,343	
Total	35,525	
Shareholders' equity:		
Preferred stock, $.01 par value, 10,000,000 shares authorized, none outstanding	—	—
Common stock, $.01 par value, 100,000,000 shares authorized, 23,687,600 shares outstanding and 28,187,600 shares as adjusted for this offering (2)	237	282
Additional paid-in capital	86,276	
Notes receivable from sale of common stock	(1,921)	(1,921)
Accumulated deficit	(64,672)	(64,672)
Accumulated translation adjustments	(2,745)	(2,745)
Total shareholders' equity	17,175	
Total capitalization	$52,700	$

(1) See Note 5 to Financial Statements. Accrued interest on the obligation due WCI will increase the obligation to approximately $36.1 million at the consummation of this offering.

(2) Excludes 12,000 shares of Common Stock reserved as of June 30, 1986 for issuance pursuant to outstanding stock options and 39,000 shares with respect to which the Company intends to grant stock options. See "Management — Stock Option Plan" and Note 9 to Financial Statements.

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SELECTED FINANCIAL DATA

The selected financial data for and at the end of the period from May 17, 1984 to December 31, 1984, the year ended December 31, 1985 and the six months ended June 30, 1986 have been derived from financial statements examined by Deloitte Haskins & Sells, independent public accountants. The information set forth below should be read in conjunction with the Company's financial statements and related notes and with Management's Discussion and Analysis of Results of Operations and Financial Condition. The results of operations for the six months ended June 30, 1986 are not necessarily indicative of the results to be expected for the full year. In the opinion of management, the unaudited information for the six months ended June 30, 1985 contains all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the results for such period.

Statement of Operations Data:

	May 17, 1984 (Inception) to December 31, 1984	Year Ended December 31, 1985	Six Months Ended June 30, 1985	Six Months Ended June 30, 1986
	(in thousands, except per share data)			
Net sales:				
New and redesigned products	$ 16,115	$ 47,817	$ 6,766	$ 89,069
Purchased products	94,565	94,170	40,886	16,517
Total	110,680	141,987	47,652	105,586
Costs and Expenses:				
Cost of sales:				
New and redesigned products	9,476	28,666	4,355	49,284
Purchased products	129,050	100,133	49,089	16,029
Liquidation and transition costs	13,131	4,966	4,966	—
Research and development	3,451	9,452	4,569	6,216
Marketing and distribution	10,630	17,536	7,544	11,957
General and administrative	6,397	7,053	3,465	5,221
Total	172,135	167,806	73,988	88,707
Operating income (loss)	(61,455)	(25,819)	(26,336)	16,879
Other income — net	1,883	19,904	3,750	2,385
Interest income	1,824	741	351	872
Interest expense	(5,010)	(9,140)	(4,440)	(4,934)
Income (loss) before income taxes and extraordinary credit	(62,758)	(14,314)	(26,675)	15,202
Provision for income taxes	—	—	—	6,735
Income (loss) before extraordinary credit	(62,758)	(14,314)	(26,675)	8,467
Extraordinary credit (1)	—	—	—	3,933
Net income (loss)	$(62,758)	$(14,314)	$(26,675)	$ 12,400
Per share data (2):				
Income (loss) before extraordinary credit	$ (2.78)	$ (.62)	$ (1.18)	$ .38
Net income (loss)	$ (2.78)	$ (.62)	$ (1.18)	$ .56
Number of shares used in the computation (2)	22,554	23,033	22,593	23,762

Balance Sheet Data (in thousands):

	December 31, 1984	December 31, 1985	June 30, 1986 Historical	June 30, 1986 Pro forma (3)
Working capital	$ 13,820	$ 11,749	$ 39,732	$ 40,654
Total assets	185,263	139,044	134,288	134,288
Long-term obligations (including current portion)	41,257	57,082	64,978	40,241
Shareholders' equity (deficiency)	(6,899)	(19,477)	(8,484)	17,175

(1) Tax reduction from use of loss carryforwards. See Note 8 to Financial Statements.

(2) Per share computations for all periods include 7.1 million shares to be issued to WCI concurrently with completion of this offering. Per share computations for the six months ended June 30, 1986 include income before extraordinary credit of $.02 per share and net income of $.04 per share resulting from satisfaction of interest expense related to working capital loans from WCI by issuance of a portion of these shares. See "Business — The WCI Transaction" and Note 1 to Financial Statements.

(3) Reflects partial payment of the purchase price of net assets acquired from WCI and satisfaction of approximately $24.7 million of obligations to WCI and accrued interest by issuance of shares of Common Stock. See "Business — The WCI Transaction" and Notes 2, 5 and 9 to Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Introduction

The Company commenced operations in May 1984, and in July 1984 it acquired certain computer and video game system assets and assumed certain liabilities from WCI. See "Business — The WCI Transaction" and Notes 2, 5 and 9 to Financial Statements. The Company's net sales from its inception through June 1985 consisted primarily of the liquidation of the inventories of 600XL and 800XL 8-bit computers and associated disk drives and printers, and 2600 VCS and 5200 video game systems that were a part of the assets acquired from WCI. These inventories are referred to as the "purchased products" in the Company's financial statements and in the tables in this Prospectus.

Sales of the Company's re-engineered and redesigned 2600 VCS video game system commenced in the last quarter of 1984, and the Company introduced its 7800 ProSystem in May 1986. The Company began shipments of its 65XE and 130XE 8-bit computers in the second quarter of 1985 and of its 520ST 16/32-bit computer in the 1985 third quarter. The 1040ST was introduced in the first quarter of 1986. These products and certain peripheral products, such as disk drives and printers, are referred to as the "new and redesigned products" in the Company's financial statements and in the tables in this Prospectus.

Quarterly Results

The following table sets forth certain unaudited quarterly information for the last six fiscal quarters. The Company has not previously prepared interim financial information for public use. The amounts reflected below have been prepared based on a retrospective review by the Company. The quarterly results should be read in conjunction with the Financial Statements included in this Prospectus. This information includes all normal recurring adjustments that the Company considers necessary for a fair presentation.

	Three Months Ended					
	March 31, 1985	June 30, 1985	September 30, 1985	December 31, 1985	March 31, 1986	June 30, 1986
	(in thousands, except per share data) (Unaudited)					
Net sales:						
New and redesigned products	$ 819	$ 5,947	$15,267	$25,784	$33,558	$55,511
Purchased products	23,867	17,019	13,718	39,566	11,319	5,198
Total	24,686	22,966	28,985	65,350	44,877	60,709
Costs and Expenses:						
Cost of sales:						
New and redesigned products	518	3,837	9,206	15,105	18,860	30,424
Purchased products	29,069	20,020	13,210	37,834	10,952	5,077
Liquidation and transition costs	2,592	2,374	—	—	—	—
Research and development	2,295	2,274	2,353	2,530	2,928	3,288
Marketing and distribution	3,716	3,828	4,236	5,756	5,415	6,542
General and administrative	1,758	1,707	1,798	1,790	2,153	3,068
Total	39,948	34,040	30,803	63,015	40,308	48,399
Operating income (loss)	(15,262)	(11,074)	(1,818)	2,335	4,569	12,310
Other income	1,763	1,987	1,438	14,716	892	1,493
Interest income	267	84	39	351	372	500
Interest expense	(2,301)	(2,139)	(2,197)	(2,503)	(2,545)	(2,389)
Income (loss) before income taxes and extraordinary credit	(15,533)	(11,142)	(2,538)	14,899	3,288	11,914
Provision for income taxes(1)	—	—	—	—	1,457	5,278
Income (loss) before extraordinary credit	(15,533)	(11,142)	(2,538)	14,899	1,831	6,636
Extraordinary credit — tax reduction from use of net operating loss carryforwards (1)	—	—	—	—	851	3,082
Net income (loss)	$(15,533)	$(11,142)	$(2,538)	$14,899	$ 2,682	$ 9,718

(1) Provision for income taxes is based on the efffective tax rate for the six months ended June 30, 1986 of 44%. Extraordinary credit for the six months ended June 30, 1986 was allocated to the first two quarters of 1986 based on the provision for income taxes for each of those quarters.

The following table sets forth the percentage contribution to the Company's total net sales for the last six fiscal quarters from sales of the Company's new and redesigned computers and video game systems and from liquidation of the 8-bit computer and video game products purchased from WCI:

	Three Months Ended					
	March 31, 1985	June 30, 1985	September 30, 1985	December 31, 1985	March 31, 1986	June 30, 1986
New and redesigned products:						
Computers	—%	17%	41%	34%	63%	64%
Video games	3	9	12	5	12	27
Total	3	26	53	39	75	91
Purchased products	97	74	47	61	25	9
Total net sales	100%	100%	100%	100%	100%	100%

The Company believes that increased sales of 8-bit computer and video game systems in the fourth quarter of 1985 resulted from seasonality of these products, which the Company sells principally through national retailers. Because of this seasonality, the Company expects net sales during the fourth quarter to represent a disproportionate percentage of its annual net sales of these products.

Results of Operations for the Six-Month Periods Ended June 30, 1985 and 1986

The improvement from an operating loss of $26,336,000 in the six months ended June 30, 1985 to operating income of $16,879,000 in the six months ended June 30, 1986 was primarily attributable to the 122% increase in net sales in the 1986 period. That increase resulted from the increase in sales of the Company's new and redesigned products, which represented 14% of net sales in the 1985 period and 84% of net sales in the 1986 period. Sales of new and redesigned products during the six months ended June 30, 1986 included net sales of the Company's computer products of $67,079,000, or 63% of total net sales, and net sales of video game systems of $21,990,000, or 21% of total net sales.

The 60% decline in sales of purchased products from the 1985 period to the 1986 period resulted principally from two factors: during the first six months of 1986, the Company focused primary attention on developing independent computer specialty dealer distribution channels for its 520ST and newly introduced 1040ST computers; and during the same period several key national retailers, the primary source of the Company's sales of purchased products, continued to reduce or eliminate video game and 8-bit microcomputer system purchases because of excess inventories. At June 30, 1986 remaining inventories of purchased products were approximately $22,591,000. The Company believes that revenues from liquidation of the remaining inventories of these purchased products will not be material after 1986.

The increase in the Company's gross profit margin on sales of its new and redesigned products from 36% for the six months ended June 30, 1985 (40% for all of 1985) to 45% during the six months ended June 30, 1986 reflects higher costs associated with initial production in the 1985 period and cost of sales increasing more slowly than net sales, resulting from manufacturing efficiencies and economies of scale attendant to materially increased production in the 1986 period.

Liquidation and transition costs of $4,966,000 incurred in the six months ended June 30, 1985 include certain employment and occupancy costs incurred by the Company during liquidation of excess plant and operating assets acquired in the WCI Transaction.

All of the Company's research and development expense in the 1985 and 1986 periods related to development of its new and redesigned products. Although research and development expenses increased in absolute value in the first six months of 1986 as compared to the prior period, it decreased as a percentage of net sales because of the substantial increase in net sales in that period. The Company currently anticipates that research and development expenditures will approximate five to six percent of net sales.

Marketing and distribution and general and administrative expenses increased in absolute terms but decreased as a percentage of net sales because of the substantial increase in net sales in the 1986 period.

Results of Operations from Inception to December 31, 1985

The 15% contribution of the Company's new and redesigned products to net sales in the 1984 period resulted entirely from sales of the re-engineered and redesigned 2600 VCS video game system, principally in the 1984 Christmas season. The increase in contribution of the Company's new and redesigned products

from 15% of net sales in 1984 to 34% in 1985 resulted from continued sales of the re-engineered and redesigned 2600 VCS video game system and commencement of sales of the Company's 65XE and 130XE 8-bit computers and its 520ST 16/32-bit computer. Sales of the Company's 65XE, 130XE and 520ST computers represented $38,069,000, or 27% of total net sales for 1985.

Negative gross margins attributable to the sale of purchased products for 1984 and through June 1985 reflect writedowns of inventories of those products to estimated net realizable value. The reduction in cost of sales as a percentage of net sales between 1984 and 1985 was the result of two factors: the positive gross margins attributable to increased sales of the Company's new and redesigned products in 1985, and net sales realized on liquidation of purchased 2600 VCS video game systems during the second half of 1985 that were in excess of resale prices anticipated in reducing purchased inventories to estimated net realizable value at the end of 1984.

Research and development expenses represented 3% and 7% of net sales in 1984 and 1985, respectively. All of the research and development expense was attributable to development of the Company's new and redesigned products.

Because the Company's expenses in the seven and one-half months of its operations in 1984 were heavily affected by start-up and liquidation and transition costs, the Company does not believe that comparisons of other components of costs and expenses in fiscal 1984 with fiscal 1985 is meaningful.

Other income of $1,883,000 in fiscal 1984 resulted primarily from sales of excess property and equipment purchased from WCI. Other income of $19,904,000 in fiscal 1985 included approximately $6,900,000 from continued sales of excess property and equipment acquired from WCI and approximately $11,000,000 from resale to WCI of certain warrants to purchase Warner Communications, Inc. stock acquired by the Company as part of the WCI Transaction. See Note 2 to Financial Statements.

International Sales

International net sales (including export sales) for fiscal 1984 and 1985 and the six months ended June 30, 1986 were $47,668,000, $85,388,000 and $62,308,000 (43%, 60%, and 59% of net sales), respectively. For additional information on net sales, operating income and identifiable assets associated with international operations by geographic region see Note 10 to Financial Statements. The Company's international operations are subject to the risks of fluctuation of the values of the U.S. dollar and foreign currencies. For information concerning the effect of foreign currency transactions on the Company's results of operations through June 30, 1986 see Note 1 to Financial Statements.

Liquidity and Capital Resources

The Company's initial working capital consisted of approximately $30.9 million received from sales of Common Stock and the Company's purchase of operating assets in the WCI Transaction, which has not required payment of cash to WCI prior to the completion of this offering. Additional working capital has been provided from operations, $24.7 million of working capital advances from WCI, sales to third parties of excess property and equipment received in the WCI Transaction and resale to WCI, for $15 million, of warrants received in the WCI Transaction. See Note 2 to Financial Statements and "Business — The WCI Transaction." Pursuant to an agreement with WCI, the proceeds from the sale of the warrants are restricted to use by the Company to settle or satisfy judgments resulting from certain third party claims asserted against WCI and the Company relating to activities of WCI prior to the WCI Transaction. See "Business — Legal Proceedings." WCI does not intend to make additional working capital advances to the Company.

The Company believes that the proceeds of this offering, together with existing cash balances and funds anticipated to be generated from operations, will be sufficient to meet its cash requirements through June 1987, and that it will not be necessary to raise additional funds to meet expenditures required to operate the Company's business during that period. However, the Company has no bank or institutional credit lines and intends to seek such credit lines for use in connection with future working capital and capital asset development needs. No negotiations have commenced with prospective lenders, and no assurance can be given that any such credit lines can be established on terms acceptable to the Company. No specific uses of any such future borrowings have been identified at the date of this Prospectus.

BUSINESS

The WCI Transaction

In May 1984, Jack Tramiel founded the Company and began assembling a management team to undertake development, manufacture and marketing of microcomputer systems designed to offer advanced technology at low prices. In July 1984, the Company acquired from WCI certain assets, including inventories of the Atari 600XL and 800XL 8-bit microcomputers and associated disk drives and printers, and of 2600 VCS and 5200 video game players and game software, and the exclusive right to the Atari name and logo for the Company's computer and consumer products. These assets were subject to certain then existing and contingent obligations and liabilities. In November 1985, the Company resold to WCI warrants acquired in the 1984 asset acquisition for $15 million, of which $13.9 million was deposited in escrow to fund certain litigation related to settlement or judgments, if any, obtained in these obligations and liabilities. See "Business — Legal Proceedings" and Notes 2 and 12 to Financial Statements.

Between July 1984 and June 30, 1986, WCI advanced to the Company working capital of $24.7 million (bearing interest at 10.5%) that was used to satisfy certain liabilities assumed in the 1984 asset acquisition.

The consideration given by the Company in the 1984 asset acquisition was subject to adjustment based upon the Company's and WCI's subsequent evaluation of the assets acquired and the associated obligations and liabilities. In August 1986, the Company and WCI completed that evaluation and agreed that, for the net assets the Company acquired in the 1984 transaction, and accrued interest on the purchase obligation at 17%, and in repayment of WCI's working capital loans to the Company, including accrued interest, upon consummation of this offering, the Company would issue to WCI 7.1 million shares of Common Stock, and pay to WCI approximately $36.1 million. The Company's approximately $36.1 million obligation to WCI will be paid from the proceeds of this offering.

As a result of the WCI Transaction, upon consummation of this offering, WCI will own 7.1 million shares of the Company's Common Stock, constituting approximately 25% of the Common Stock to be outstanding. WCI does not intend to make additional advances to the Company.

Products

Introduction.

The Company's revenues and results of operations from its inception through June 1985 resulted primarily from liquidation of 8-bit microcomputer and video game system inventories that were a part of the assets acquired in the WCI Transaction. The Company used the net cash flow from that liquidation for payment of associated obligations and liabilities and continued research and development of its own computer and video game lines.

In early 1985, the Company introduced its first computer products, its 65XE and 130XE 8-bit computers, targeted for the entry-level computer user and compatible with peripheral products and several hundred software programs already then available for the microcomputer inventories being liquidated from the WCI Transaction. In April 1985, the Company introduced the 520ST, the first of its ST series of 16/32-bit microcomputers, and in January 1986 it introduced the 1040ST. As of September 15, 1986, the Company had sold over 150,000 ST systems worldwide. The Company currently intends that its principal product development efforts will focus on enhancements of and peripheral products for the ST series.

The Company's video game system products consist of the 2600 VCS, introduced in late 1984, and the 7800 ProSystem, introduced in May 1986. The Company intends to expand its offering of microprocessor-based consumer entertainment products.

See Note 10 to Financial Statements for information regarding the Company's industry segment.

The ST 16/32-bit Microcomputer Series.

The centerpiece of the Company's product lines is its ST series of microcomputer systems. The Company's business strategy is to offer advanced microcomputer technology and to structure and price the ST series as an industry leader based on the relationships of price-to-memory capacity and price-to-processing speed.

The following table compares the features of the Company's ST microcomputers against standard system configurations of microcomputers currently offered by certain major manufacturers whom the Company believes to be its principal competitors. Prices are manufacturers' list prices, which are subject to change and are frequently subject to reduced price promotions, and selected dealer discounts are widely available for some machines, particularly for the IBM PC product line. Accordingly, actual retail prices are often lower.

	ATARI 1040ST(1)	IBM PC-AT(2)	APPLE MACINTOSH PLUS(3)	COMMODORE AMIGA	LEADING EDGE MODEL D	TANDY 1000EX	COMPAQ DESKPRO 286	KAYPRO 286i
Manufacturer's list price	$ 999(mono) 1,199(color)	$4,675	$2,195	$1,795	$1,295	$1,198(mono) 1,498(color)	$3,998	$2,995(mono) 3,195(color)
Microprocessor	68000	80286	68000	68000	8088	8088	80286	80286
Speed (MHz)	8.0	8.0	7.83	7.16	4.77	4.77	8.0	6.0
Standard user-accessible RAM	1024K	256K	1024K	256K	512K	384	256	512
Cost per RAM kilobyte	$0.98	$18.26	$2.44	$7.01	$2.34	$3.90	$17.57	$6.24
Operating system in ROM	Yes	No	Yes	No	No	No	No	No
Number of keys	94	84	78	89	84	90	84	84
Mouse	Yes	No	Yes	Yes	No	No	No	No
Floppy disk drive	3½"	5¼"	3½"	3½"	5¼"	5¼"	5¼"	5¼"
Number of floppy disk drives	1	1	1	1	2	2	1	2
Hard disk port	Yes	Yes	Yes	No	Optional	Optional	Optional	Optional
Color video capability	Yes	Optional	No	Yes	Yes	Yes	Yes	Yes
Number of colors	512	16	None	4096	16	16	16	16
Screen resolution								
Color	640x200	640x200	None	640x400	320x200	640x200	640x200	320x200
Hi-Res monochrome	640x400	Optional	512x342	None	720x348	640x200	Unknown	640x200
Built-in MIDI interface(4)	Yes	No	No	No	No	No	No	No
Sound voices	3	1	4	4	1	3	1	1

(1) The Company's 520ST offers the same features as the 1040ST, except that it includes 512K of RAM and a stand-alone 3½" disk drive, at a suggested retail price of $799 (monochrome monitor) and $999 (color monitor).

(2) The IBM PC is based on the Intel 8088 microprocessor, operates at a slower speed (4.77 MHz) than the PC-AT, uses an 84-key keyboard, offers a 320 by 200 unit color screen resolution, and bears a suggested retail price of $2,495. The recently announced IBM PC-XT 286 is based on the Intel 80286 microprocessor, includes 640K RAM, a 5¼" floppy disk drive and a hard disk drive, and operates at 8.0 MHz, at a suggested retail price of $3,995.

(3) The Apple Macintosh offers the same features as the Macintosh Plus, except that it includes 512K of RAM and a 59-key keyboard, at a suggested retail price of $1,995. Apple recently announced the 8/16-bit Apple IIgs, offering 256K RAM (expandible to one megabyte at extra cost), music and voice simulation, graphics, a mouse and high resolution monitor (sold separately), at apparent retail prices between $1,600 and $1,900.

(4) A MIDI is an interface that permits communication between the computer and a music synthesizer.

Hardware and Operating System Features. The Company's ST computer line currently consists of two models, the 520ST and the 1040ST. At the heart of both machines is the Motorola 68000 microprocessor which simultaneously processes 32-bits of information internally and communicates over a 16-bit channel. By comparison, the IBM PC operates on 16-bits of information internally and communicates over an 8-bit channel, making it considerably slower in processing information than 32-bit machines. The ST operates its microprocessor at a speed of eight million cycles per second (eight megahertz), making it one of the fastest standard 16/32-bit configuration microcomputers of which the Company is aware.

The 520ST and 1040ST contain 524,288 (512 kilobytes) and 1,048,576 bytes (one megabyte) of internal random access memory ("RAM"), respectively, permitting storage in the computer of applications software and data for various computer functions, such as word processing, database management, spreadsheets and graphics. For example, in a word processing function, the one megabyte RAM capacity of the 1040ST can hold over 250 pages of standard text. Within the next twelve months, the Company intends to introduce two and four megabyte versions of the ST line.

Microprocessor speed and internal memory capacity can be restricted by the inability to move information to and from memory or external devices. The ST line contains four customized circuits that coordinate and expedite the movement of information. For example, in the ST, information can be moved from memory to the video monitor without impeding the transfer of information from the microprocessor to memory. Similarly, direct channels between the internal memory and external devices allow the ST to transfer information to disk drives without burdening the microprocessor.

A computer's operating system is the internal software that manages the computer's hardware and provides fundamental resources for working with applications programs introduced into the RAM. On many computers (for example, the IBM PC) the computer's operating system must be loaded from a disk into RAM which would otherwise be available for applications software, such as word processing or spreadsheet programs. However, the ST operating system is stored in the computer in 196,608 bytes of permanent read only memory ("ROM"), eliminating loading time and leaving the ST's RAM free for applications software and data storage.

A substantial part of the ST operating system is the Graphics Environment Manager ("GEM"). GEM is based on two fundamental principles. First, it is designed to enable the user to operate the computer by pointing to images shown on the video monitor representing a familiar office environment and executing functions through the two-button "mouse", as well as through the 94-key keyboard. This capability obviates the need to type frequent cryptic commands, making computer use faster and more intuitive. For example, a picture of a file cabinet represents the computer's file system. By pointing to the file cabinet image, the user can examine its contents and then dispose of, display or print its contents by pointing to the image representing the desired operation.

The second fundamental principle underlying GEM is its adaptability to different existing hardware products, as well as to future hardware products that exceed current microcomputer technology. For example, a word processing program that will operate on the Company's 640 x 400 unit high resolution monochrome monitor will also operate on the Company's lower resolution color monitor. If the Company were to introduce a monitor with 1280 x 960 unit resolution, the same word processing program would operate on the improved system. Accordingly, a new computer of the ST line will be able to use the existing ST series software base without limiting the Company's ability to offer consumers enhanced capabilities.

The Company offers standard programming languages for the ST, including BASIC, the most widely used language among microcomputer users, and LOGO, a popular language, particularly among educators. Additional programming languages for the ST currently available from independent software vendors include the C language, Fortran, 68000 assembly language, Forth, Pascal, Modula-2 and LISP.

Applications Software. To promote sales of its products in international markets, the Company relies upon a policy of actively encouraging ST applications software development, not only by major independent software developers in the United States, but by formerly under-utilized European software developers. The Company's strategy is to promote software for local markets to reflect local needs. To facilitate development

of software by others, the Company provides detailed information concerning its ST architecture and operating system, offers consulting services of its technical staff without charge and assists marketing efforts of software developers.

As of September 15, 1986, approximately 300 applications software products were available from United States software developers, and a similar number were available from software developers outside the United States. Available ST software products currently include word processing programs; spreadsheets, including the VIP Professional (a Lotus 1-2-3 compatible); databases, including Versasoft's DB MAN (an Ashton-Tate dBASE III work-alike); graphics and electronic publishing software; entertainment software; musical composition programs; computer-aided design software; and an "expert system" using artificial intelligence techniques.

The Company's microcomputers were only recently introduced and do not use the MS-DOS operating system that is the basis of IBM and IBM-compatible microcomputers, which account for the majority of microcomputer sales. Accordingly, these and other competitors, whose computers have a materially larger installed base than the Company's, have considerably larger existing software libraries than the Company. The Company's ability successfully to promote and encourage further software development for the ST line will be critical to the future growth of its sales. Over 3,000 orders have been received for the Company's ST software development package; the Company believes that independent software developers currently developing software for the ST includes Microsoft, a major software house.

Peripheral Equipment. The ST line adopts industry standards for interconnecting peripheral hardware devices where the standards do not unduly limit performance. The ST includes a "Centronics" printer interface allowing connection to printers manufactured for the IBM PC, and an "RS-232" communications interface allowing connection to modems from industry leaders such as Hayes and Racal-Vadic.

The Company's line of peripheral equipment for the ST series is currently composed of color and monochrome monitors, 360K and 720K 3½-inch microfloppy disk drives, a 20 megabyte hard disk drive, and a dot matrix graphics and text printer. The Company is currently developing additional peripheral equipment and ST features, including a telecommunications modem, a laser printer, enhanced sound circuits, and a dedicated graphics co-processor that will generate graphics at up to five times current speeds.

The XE 8-bit Microcomputer Series.

The Company's XE series computers are targeted for the entry-level computer user and compete with such products as the Commodore 64 and Apple IIe 8-bit computers. They include the 130XE and the 65XE, which generally retail for less than $150 and $100, respectively. Both computers are compatible with peripheral equipment and several hundred software titles available for the 400/800, 1200XL and 600/800XL computer inventories liquidated from the WCI Transaction.

The XE series computers include a 1.79MHz 6502C microprocessor, 128K of RAM, 24K of ROM, built-in BASIC language, cartridge port, two joystick/paddle ports, and a 65-key full-stroke keyboard. Peripheral equipment includes a 5¼-inch disk drive, a letter quality printer, a dot matrix printer, an 80-column card for full-page word processing and spreadsheet applications, and a 300 baud modem.

Video Game Systems

The Company believes it is the largest seller of video game systems in the United States. Sales of the Company's video game systems (not including liquidation of inventories of prior video game products acquired in the WCI Transaction) were $9,748,000 and $21,990,000 in 1985 and the first six months of 1986, respectively.

The Company acquired an inventory of the original Atari 2600 VCS video game systems from WCI in July 1984. The Company is liquidating the 2600 VCS inventory acquired from WCI and has materially re-engineered and redesigned the 2600 VCS as its own video game system. The new 2600 VCS, introduced in late 1984, is based on a standard 6507 microprocessor, a 6532 combination RAM, input/output and timer chip, and a custom video display chip. The Company has reduced the 2600 VCS's parts by a third, allowing the use of a single-sided printed circuit board, resulting in reduced labor and materials costs and increased

product reliability. In addition, new custom memory developments allow more sophisticated and elaborate graphics for game programs.

The 2600 VCS currently retails for less than $50, and plays video games designed for both the original and the new 2600 VCS.

In May 1986, the Company introduced its 7800 ProSystem video game system, featuring compatibility with all 2600 VCS game software and offering arcade quality graphics for new games designed for the 7800 ProSystem. The expanded memory capacity of the 7800 ProSystem allows it to run entertainment software heretofore available only on home computer systems. At June 30, 1986, eight classic arcade games, including Ms. Pac-Man, Joust and Pole Position II, were available for the 7800 ProSystem with enhanced graphics. The 7800 ProSystem generally retails for less than $100.

The Company intends to expand its offering of microprocessor-based consumer entertainment products.

Distribution, Sales and Marketing

United States. Since introduction of the 520ST in June 1985, the Company has followed the policy of selling its ST microcomputer products primarily to independent computer specialty dealers (who usually also carry competing microcomputer product lines), for resale to end-user customers. In general, these dealers also provide pre-sale and post-sale support, offer peripheral equipment such as disk drives and printers manufactured by the Company, and provide warranty and post-warranty repair services. Accordingly, since the Company's dealers serve as the principal point of contact between the Company's ST computers and end-users, their support services are important to the growth of the Company's ST computer sales.

Currently, over 800 dealers, served through regional distributors and directly by the Company, market the ST computer line in the United States. Although the Company sells its ST computers directly to individual stores of certain national computer specialty stores, its computers are not currently carried on a company-wide basis by the principal national chains, Micro-Age, ComputerLand, BusinessLand or Entre. New computer specialty dealer accounts are opened principally through a network of regional independent manufacturer's sales representatives. To expand further its distribution base, the Company has recently begun distributing its 520ST through mass market channels.

Because of their low retail prices and appeal to the entry-level computer user, the Company distributes its XE computers and video game systems primarily through national retailers, department stores and mail order outlets. Several key national retailers substantially reduced or eliminated microcomputer purchases in 1984 and 1985 and during the first six months of 1986 because of excess inventories and reduced profit margins. Although the Company believes that these problems are diminishing, and that many such mass market retailers are resuming their microcomputer product purchases, they can be expected quickly to curtail orders if increased consumer demand does not materialize.

Since the Company's policy is not to make direct sales of its products to end-users, the Company's ability to maintain and add retail specialty dealer and mass market retailer relationships will be an important determinant of its future revenues. Competition for dealer and retailer acceptance of microcomputer products is intense. Since the Company's independent dealers and retailers are not committed to carry the Company's products, they could reduce orders for the Company's products and change to the products of a competing microcomputer manufacturer at any time.

The Company tailors its advertising to the primary market targeted for each specific product. For example, the 2600 VCS and 7800 ProSystem video game systems, which appeal primarily to children and young adults, are mass marketed and promoted through television advertisements, generally telecast during Saturday morning programming. The XE and ST computers are generally promoted through print media, with direct advertisements principally in computer users' magazines. Except for its television advertisements, the Company depends substantially on its dealers for promoting the Company's products. The Company has participated in joint advertising programs with certain dealers from time to time.

The Company also encourages formation of regional users groups for support of the Company's products, and disseminates information concerning its products through its magazine, *Atari Explorer*. Recently, the Company retained the former publisher and editor of *Creative Computing* to produce the magazine and other publications promoting the Company's products.

International. The Company distributes its product lines, directly and through independent distributors, in approximately 50 countries outside the United States. Primary international distribution is by direct sales in West Germany, the United Kingdom, France, Italy, Switzerland, the Benelux countries and Canada. In other international markets, the Company distributes its products through approximately 25 independent national and regional distributors.

International distribution is tailored for each local market. Distributors translate software for the local language, and computer keyboards, electrical requirements and video outputs are adapted to conform to local and regional standards.

Sales of the Company's products outside North America for fiscal year 1985 and the six-month period ended June 30, 1986 constituted approximately 36% and 40% of all sales, respectively. For the same periods, export sales represented 24% and 19% of net sales, respectively. The Company's international sales are subject to certain risks common to non-United States operations in general, such as governmental regulation, import restrictions, and currency fluctuations. Accordingly, fluctuations in the dollar in relation to certain international currencies may affect the Company's sales to international customers.

See Note 10 to Financial Statements for information regarding revenues, operating profit (loss) and identifiable assets attributable to geographic regions.

Warranty and Customer Service

Video game and XE computer products are sold primarily through mass market retailers without on-site warranty or other service capability. Where the distributor does not have on-site warranty service capability, within the Company's 90-day warranty period, consumers may return defective products to the place of purchase for free repair or replacement. The Company in turn accepts in-warranty returns from distributors for credit, repair or replacement. Where a distributor or retailer has the capability to make on-site warranty repairs, the Company affords the distributor or retailer a warranty allowance against the product invoice price in exchange for assumption of the warranty service obligation.

After the 90-day warranty period expires, product repairs are made by independent service organizations authorized by the Company. The Company's distributors and retailers can purchase spare parts and have access to technical documentation and advice from the Company's service department.

The Company's limited warranty covers parts and labor for 90 days. The Company's allowance to distributors who assume the warranty obligation is deducted in computing its net sales; its provision for warranty expenses incurred by the Company is included in its cost of sales.

The Company is equipped to handle direct inquiries from consumers. Letters and telephone calls are screened and logged to monitor specific types of consumer problems and to provide timely response.

Product Development

Since the Company's inception, it has developed a broad range of computer and video game products. The ST computer series was developed by the Company, including the customized chip set that controls all aspects of ST computer functions. The Company has developed and announced plans to introduce enhancements and additional products for the ST line within the next twelve months. An additional graphics processor, which may be added to the 520ST or the 1040ST, will handle all graphics generating functions, freeing capacity of the existing central microprocessor for other functions and increasing the speed at which the computers respond to commands to generate graphics and pictorial representations to up to five times the speed of the current ST computers.

The Company also intends to develop and introduce additional microcomputer products, using the current ST operating system and compatible with current ST applications software, that will offer two and four megabytes of RAM and substantially enhanced color resolution and spectrum capacity.

The Company believes that its continued growth will depend on its ability to reduce costs of its current products and to create and market new and innovative personal computer and entertainment electronics products at prices below those charged by its competitors for comparable products. The introduction of any such new products typically requires at least a year of advance planning and design and substantial expenditures before market acceptance can be determined.

Market acceptance of the Company's products is also dependent upon the availability and market acceptance of applications software for the Company's products. The Company does not currently develop applications software, and plans for the foreseeable future to devote research and development resources to development of new hardware products. Accordingly, applications software for the Company's products is developed and produced by independent software publishers over which the Company has no control. The necessity for such continued new product introductions in the context of uncertain market acceptance and increasing price competition is a material risk of the Company's business plans.

The Company has spent and intends to continue to spend significant amounts for research and development of new microcomputer products and to reduce the cost of its products. The Company's research and development costs, which were primarily associated with development of its ST microcomputer series, were $3,451,000 in the seven months of its operations in 1984, $9,452,000 in 1985, and $6,216,000 for the first six months of 1986. As of September 15, 1986, approximately 80 Company employees were engaged in computer product development.

Manufacturing

The Company manufactures its products at its 200,000 square foot facility in Tam-Shui, Taiwan. The Company believes that the facility is sufficient to meet product manufacturing demands in the foreseeable future. However, since manufacturing is centralized in this single facility, the Company's operations are subject to risks of economic and political disruptions, transportation delays and imposition of government controls in Taiwan.

The manufacturing process uses modern and reliable equipment, including wave solderers and robotic circuit placing equipment, which reduce production costs and enhance product integrity. Quality safeguards and audits are incorporated into several phases of the production cycle. All printed circuit boards are placed in "burn-in" chambers to detect component failures. Randomly selected fully assembled systems pass through several audit tests and inspection stations.

The production process has been designed and is overseen by the Company's production engineering group, consisting of approximately 20 employees based in Japan.

Substantially all component parts and peripheral equipment not manufactured by the Company are acquired from multiple sources and have been readily available. Some components and peripheral equipment are available only from a limited number of suppliers. Although the Company believes that alternate sources of supply for such items could be developed if necessary, the disruption or termination of existing sources could have an adverse effect on the Company's operation.

The Company manufactures its products according to its forecast of near-term demand, and not primarily to specific customer orders. Warehoused inventories of finished products, estimated to fill sales and warranty return requirements, are maintained in advance of receipt of orders. An additional three-to-four week supply of finished product is generally in transit to the United States, and a five-to-six week supply is generally en route to Europe, by ship from the Company's Taiwan manufacturing facility. Orders are usually placed by purchasers on an as-needed basis and are usually filled from inventory shortly after receipt. The Company's backlog of orders at any time is generally not indicative of future sales.

Intangible Property Rights

The Company's most significant trademarks are its "Atari" name and logo, both of which were acquired from WCI for the Company's exclusive use in computer and consumer products. WCI retained the rights, including sublicense rights, to the "Atari" name and logo for use in coin-operated arcade video games. The Company also acquired from WCI a portfolio of patents, trademarks and copyrights, including all intangible property rights formerly owned by WCI in conjunction with its computer and video game businesses. The Company considers the ownership of patents in its segments of the microcomputer and entertainment electronics industries to be less significant than technological innovation, efficient production and product marketing strength.

The Company's rights to make, use and sell certain computer and video game software are held through licenses from third parties. The most significant license grants the Company an exclusive right to the operating system and a non-exclusive right to certain development tools developed by Digital Research Inc. for the ST series of computers. The operating system license is fully-paid and includes the right to produce unlimited copies.

The Company owns rights to a portfolio of approximately 40 patents in the field of optical display holography. The Company has an exclusive license with sublicense rights under the patents, but only for use in specified fields such as publishing, packaging, and games and novelty items. The Company receives royalties under a non-exclusive sublicense to American Bank Note, the principal producer of holograms in the United States. The Company has no current plans to exploit these holography patents other than by sublicensing its rights to third parties.

Facilities

The Company leases its 46,000 square foot corporate headquarters building at 1196 Borregas Avenue, Sunnyvale, California, and approximately 158,000 square feet of warehousing space located in two facilities.

The Company owns a manufacturing facility containing approximately 200,000 square feet situated on approximately 7½ acres in Tam-Shui, Taiwan, and leases 6,383 square feet of production engineering and office space in Tokyo, Japan for production engineering.

The Company leases international sales facilities, including 4,022 square feet of office space and 16,146 square feet of warehouse facilities near Toronto, Canada, and European sales offices in Slough, England; Paris, France; Frankfurt, West Germany; Baden, Switzerland; Amsterdam, Netherlands; and Milan, Italy.

Employees

At September 15, 1986, the Company had approximately 1,180 employees, including approximately 80 in engineering and product development, approximately 140 in marketing, sales and distribution, approximately 830 in manufacturing and production, and approximately 130 in general administration and management. The approximately 800 employees at the Company's Tam-Shui, Taiwan manufacturing facility are represented by a labor union. None of the Company's other employees is represented by a labor union. The Company considers its employee relations to be good.

Many of the Company's employees are highly skilled. The Company's business depends, to a great extent, on its ability to attract and retain highly skilled employees. The Company competes with many other high technology companies, many of whom have greater resources than the Company, for its employees. The high technology industry is characterized by a significant level of employee mobility among competitors.

Competition

The personal computer industry is highly competitive and has been characterized by rapid technological advances in both hardware and software and constant introduction of new products offering more features at lower cost. As the result of these competitive factors, during the last few years many computer manufacturers have announced significant operating losses, and several have discontinued personal computer product lines or sought bankruptcy protection.

The principal elements of competition among personal computer manufacturers are product quality and reliability, availability of software, ease of use, price/performance characteristics, service and support, availability of peripherals, marketing and sales capability, corporate reputation and capacity to deliver products in high volume.

Although the Company's ST computers have received favorable initial recognition, the Company's short operating history and only recent introduction of these products do not confirm its ability to satisfy these competitive factors on a continuing basis. The Company intends to continue to develop its computers to compete favorably with respect to such factors, with emphasis upon providing high performance at reduced price. However, there can be no assurance that comparable or superior products incorporating more advanced technology or other features at lower prices will not be introduced by competitors.

Over 100 manufacturers of personal computers, United States and international, compete for sales channels, customer attention and software development resources. The Company's principal microcomputer competitors are IBM, Apple, Commodore, Tandy, Amstrad, Olivetti SPA and several United States and international distributors of IBM compatible personal computers, including Compaq and Leading Edge Hardware Products, Inc. These competitors have longer operating histories, broader product lines, greater financial resources and larger personal computer market shares than the Company.

Since the Company relies heavily on an independent specialty dealer network for sales and service of its ST computers, it competes with these larger companies for dealer acceptance. Because full-service dealers sell and support only a limited number of microcomputer products, and the total number of dealers in the United States has apparently remained relatively stable over the past two years, competition for these dealers' limited shelf space is and is likely to remain intense. These dealers, including particularly national computer specialty store chains, make decisions on carrying microcomputer product lines based primarily on their relative ease of resale to customers, rate of inventory turnover and size of associated profit margins. Since the Company's independent dealers are not committed to carry the Company's products, these competitive factors could cause them to change to the products of a competing microcomputer manufacturer at any time. Although the Company has sold its ST computers to selected stores of major computer specialty store chains, the Company's computers are not currently carried on a company-wide basis by Micro-Age, ComputerLand, BusinessLand or Entre, the principal national computer specialty store chains.

IBM and manufacturers of IBM compatible personal computers, which use the MS-DOS operating system, control a dominant portion of the market for personal computers for business use. The Company's personal computers do not use the MS-DOS operating system and are not currently compatible with IBM and IBM compatible computers. This lack of compatibility may limit acceptance of the Company's computers in the business market and impede the development of applications software for its computers.

Although the Company's ST computers are offered at prices below suggested retail prices of IBM, Apple and certain other competing products, many such computer products are regularly available at substantial discounts from suggested retail prices. Some IBM compatible computers are also being offered by United States and international manufacturers at prices equal to or less than the prices of the Company's ST computers. During the last 12 months, IBM has announced reductions in the prices of its personal computers that are widely regarded as further intensifying competitive price reductions in the personal computer market. In addition, Tandy has recently introduced new microcomputer products at reduced prices, and IBM, Apple and Compaq have announced new computer products with enhanced features. These factors could force price reductions for the Company's products, reduce its profit margins and increase difficulty in obtaining or maintaining its market share.

Legal Proceedings

As a consequence of the WCI Transaction, the Company has been named as a defendant in litigation that has arisen as a result of the activities of WCI, and not the Company. In November 1985, the Company and WCI agreed to establish a $13.9 million escrow account from proceeds received by the Company from sale of certain warrants received in the WCI Transaction, to satisfy any judgments that might be rendered in certain of these actions or to resolve them by settlement. The escrowed funds are not available to cover

the Company's expenses of defending these actions. The Company will be responsible for the amount of any judgments or settlements in excess of the escrow amount and will receive any funds remaining in the escrow account after resolution of these actions. Of the 92 cases covered by the escrow, 76 have been resolved. Although the Company believes that the remaining actions can be resolved for less than the amount remaining in the escrow account, there can be no assurance that the remaining funds will be sufficient for that purpose.

On or about September 19, 1984, Stargate Enterprises filed an action against the Company, WCI, and Williams Electronics in the United States District Court for the Northern District of California alleging, among other things, trademark infringement, unfair competition, dilution of trademark, and false designation of origin of products. The complaint seeks $25 million in punitive and general damages. Williams Electronics has agreed to indemnify the Company and WCI, and to bear any damages arising out of these claims, as well as attorneys fees and costs. WCI has also agreed to indemnify the Company for any damages arising out of any trademark infringement alleged to have occurred prior to July 1, 1984. The Company believes that this action will have no material adverse effect on its financial condition.

On or about June 28, 1985, an alleged class action was filed in California Superior Court for Santa Clara County by Maria Carson and Rudolfo Villanueva against the Company alleging damages in excess of $13 million. This action was filed as a companion to another class action filed by the same named plaintiffs against WCI. This latter action has now been settled and approved by the court, subject to notice to the class and the right of class members to challenge the settlement. As part of the settlement, the plaintiffs have agreed to dismiss with prejudice all claims against the Company arising out of the events alleged in the complaint. The Company is not required to contribute to any proposed settlement.

On August 9, 1985, Alps Electric (USA) Inc. filed an action against the Company and WCI in the California Superior Court for Santa Clara County, alleging amounts due for goods sold and delivered and cancellation charges. The complaint seeks $6.8 million from the Company in general damages, plus interest. This case is not covered by the escrow account referred to above. Discovery is in process, and the matter is scheduled for trial in October 1986.

MANAGEMENT

Directors and Executive Officers

The directors and executive officers of the Company are as follows:

Name	Age (At June 30, 1986)	Position(s) Held
Jack Tramiel	58	Chairman of Board, Chief Executive Officer and Director
Sam Tramiel	36	President, Chief Operating Officer and Director
Samuel W.L. Chin	36	Vice President, General Manager-Atari Taiwan Manufacturing Corporation and Director
Leonard I. Schreiber	72	Director
Gregory A. Pratt	37	Vice President-Finance, Chief Financial Officer and Treasurer
Taro Tokai	40	Vice President
Garry Tramiel	26	Secretary, Assistant Treasurer and Vice President-Administration
Shiraz Shivji	38	Vice President-Advanced Technologies
Leonard Tramiel	31	Vice President-Software Development
Michael V. Katz	43	Vice President-Marketing and Entertainment Electronics
Thomas Brightman	31	Vice President-Production Engineering
Joseph Spiteri	56	Vice President-Manufacturing

All directors hold office until the next annual meeting of the shareholders and the election and qualification of their successors, or until they resign or are removed. All the current directors were elected to their positions in 1984. Officers are elected annually and serve at the pleasure of the Board of Directors.

Jack Tramiel founded the Company in May 1984. Until January 1984, he was President and Chief Executive Officer of Commodore International Limited, which he founded in 1958 under the name Commodore Business Machines Ltd. for the manufacture of typewriters. Mr. Tramiel is the father of Sam, Leonard, and Garry Tramiel.

Sam Tramiel has been the President, Chief Operating Officer and a director of the Company since June 1984. From 1974 until joining the Company, Sam Tramiel was employed by Commodore International Limited, most recently as Vice President-Japan and General Manager-Asia. In that capacity, he was responsible for worldwide computer production, purchasing and semiconductor packaging throughout Asia. From 1976 to 1977 he served as head of Commodore's Consumer Division from Toronto and as General Manager in Hong Kong, London and Santa Clara. In the period 1979 to 1981, Mr. Tramiel was also engaged in the operation of his own OEM manufacturing businesses in the Far East.

Samuel W.L. Chin joined the Company as its Vice President, Chief Financial Officer and Treasurer, and was elected as a director of the Company, in June 1984. He became the General Manager of Atari Taiwan Manufacturing Corporation in February 1985. From 1980 until 1984, Mr. Chin was employed by Commodore International Limited as its Director of Taxes and its Vice President-Finance, Commodore Electronics, Ltd.

Leonard I. Schreiber has been a director of the Company since its formation and served as a Vice President and Secretary of the Company from its formation through August 1986. He is a partner of Schreiber & McBride, which serves as general counsel to the Company. He has been Mr. Tramiel's personal counsel, and until May 1984 had been counsel to Commodore International Limited, for over 20 years.

Gregory A. Pratt joined the Company in June 1984, as General Manager. In February 1985, Mr. Pratt became the Company's Vice President-Finance and Treasurer. From 1979 until joining the Company, Mr. Pratt was employed by Commodore International Limited in several capacities, including Vice President-Finance and Vice President-Operations. Prior to joining Commodore, Mr. Pratt was employed by Arthur Andersen & Co.

Taro Tokai has been employed as Vice President and General Manager of Atari Japan Corp. since July 1, 1984. From November 1976 until May 1984 he served as Vice President of Commodore Japan Ltd.

Garry Tramiel joined the Company in July 1984 as its Assistant Secretary, Assistant Treasurer and Vice President-Administration. In September 1986, he was elected Secretary of the Company. From March 1982 until July 1984, he was employed as an account executive with Merrill, Lynch, Pierce, Fenner & Smith. Before March 1982, Mr. Tramiel attended college.

Shiraz Shivji joined the Company in May 1984 as its Vice President-Advanced Technologies. From 1979 until 1984, Mr. Shivji was employed by Commodore International Limited as Director of Research and Development. He has also worked in research and development capacities with Friden Mailing Equipment, Bechtel Corporation and Berkeley Scientific Laboratories. Mr. Shivji has over 12 years experience in systems design and software development.

Leonard Tramiel became the Company's Vice President-Software Development in July 1984. During the five year period before joining the Company, Mr. Tramiel attended Columbia University in New York where he received a Ph.D. in Astrophysics.

Michael V. Katz joined the Company in November 1985 as its Vice President-Marketing and Entertainment Electronics. From March 1983 to November 1985, Mr. Katz served as President, Chief Executive Officer and Director of Epyx, Inc., a computer game software developer. From 1979 to 1983, Mr. Katz was Vice President-Marketing for Coleco Industries, Inc.

Thomas Brightman joined the Company in July 1984 as its Vice President-Production Engineering. From August 1982 until July 1984, Mr. Brightman was employed as a design manager for Commodore Business Machines, Inc. From March 1977 to August 1982, Mr. Brightman worked for Texas Instruments, Inc. as an engineering manager.

Joseph Spiteri has been the Company's Vice President-Manufacturing since June 1, 1984. From July 1980 to May 1984, Mr. Spiteri was employed by Commodore Business Machines, Inc. Prior to that time, from June 1978, he was Project Engineer-New Products at Fairchild Functional Test Systems, a subsidiary of Schlumberger, and a production manager for Amdahl Corporation, a mainframe computer manufacturer, from 1976 to 1978.

Compensation

The following table sets forth all cash compensation paid or accrued by the Company for services rendered during the year ended December 31, 1985 to the Company's five most highly compensated executive officers whose aggregate cash compensation exceeded $60,000 and to all executive officers as a group.

Name	Capacity in Which Served	Cash Compensation
Sam Tramiel	President and Chief Operating Officer	$162,500
Samuel W.L. Chin	Vice President and General Manager-Atari Taiwan Manufacturing Corp.	125,000
Gregory A. Pratt	Vice President-Finance, Chief Financial Officer and Treasurer	125,000
Taro Tokai	Vice President	114,874
Thomas Brightman	Vice President-Production Engineering	89,230
All executive officers as a group (12 persons)		$906,795

The Company provides certain executive officers and employees with fringe benefits. With the exception of Mr. Chin, who received a $14,474 rental reimbursement in Taiwan and payment of $10,656 of certain personal expenses, and Mr. Tokai, who received a $8,824 rental reimbursement, management

believes that these benefits, valued at their incremental cost to the Company, do not exceed 10% of reported cash compensation for any individual, and with respect to all executive officers as a group, do not exceed 10% of the cash compensation for the group in the foregoing table.

The Company has no pension or retirement plans.

Stock Option Plan

The Company has adopted a 1986 Stock Option Plan (the "Plan").

Under the Plan, key employees, directors and consultants of the Company and its subsidiaries may be granted options to purchase shares of Common Stock. The Plan provides for the issuance of options to purchase up to 1,000,000 shares to such persons and on such terms and conditions as the Board of Directors may determine. Both incentive stock options (as defined by the Internal Revenue Code of 1954, as amended) and non-qualified stock options may be granted pursuant to the Plan. In either case, the exercise price may be not less than 100% of the fair market value of the Common Stock on the date on which the options are granted (in the case of incentive options, 110% of the fair market value if the optionee owns more than 10% of the combined voting power of all classes of stock). No employee may receive, in any calendar year, incentive stock options, the fair market value of which exceeds $100,000 plus any unused limit carryover permitted by Section 422A(c)(4) of the Internal Revenue Code. Incentive stock options are also subject to other requirements provided by law.

Options granted under the Plan have maximum 10-year terms. If the optionee's employment with the Company terminates, the period for exercising any option then held is reduced to a period of 30 days following cessation of employment. If the optionee's employment terminates by reason of death or disability the exercise period is one year. The Plan also provides for acceleration of the right to exercise options at the discretion of the Board of Directors or on the occurrence of certain events, including the merger, consolidation, reorganization, dissolution or liquidation of the Company, or the sale of all or substantially all of the assets of the Company, unless the obligations under the options are assumed by, or such options are replaced by, the successor entity. Options that expire or are cancelled may be used for future options.

The Board of Directors has the power to amend or modify the Plan, provided that no such amendment or modification may be made which adversely affects rights and obligations of options then outstanding without the consent of the affected optionee.

At September 15, 1986, options to purchase 16,000 shares of Common Stock had been granted under the Plan at an average exercise price of $5.25. In 1985, the Company granted certain employees rights to purchase a total of 39,000 shares of Common Stock at $6.00 per share. The Company intends to exchange these rights during 1986 for incentive stock options to purchase Common Stock at fair market value on the date of exchange. At that time, the Company intends to pay these employees the excess, if any, between the fair market value of the stock and $6.00 per share. No such options or rights were granted to any executive officers or directors.

Certain Transactions

Since May 17, 1984, Jack Tramiel has made several loans to the Company in an aggregate principal amount of $12,304,524, at a 12% per annum interest rate. As of June 30, 1986, all of these loans had been repaid.

In November 1984, the Company entered into a Research and Development Agreement with Jack Tramiel pursuant to which Mr. Tramiel partially funded development of the ST series computers. Mr. Tramiel's investment was $500,000. On February 28, 1986, the Company exercised its option under the Agreement to purchase Mr. Tramiel's interest in the ST technology for $575,000.

Under an agreement dated January 22, 1986 with Tandon Corporation for the purchase of disk drives, the Company issued $3,780,680 aggregate principal amount promissory notes to Tandon Corporation. The notes do not bear interest and are payable monthly, through July 15, 1987. Mr. Tramiel has purchased these notes from Tandon Corporation at a 12% discount. As of September 15, 1986, $2,714,360 had been paid to Mr. Tramiel under the notes.

The law firm of Schreiber & McBride, of which Leonard I. Schreiber, a director of the Company, is a partner, provides legal services to the Company. During 1984, 1985 and through September 15, 1986, the Company paid to Schreiber & McBride $50,746, $150,198 and $194,942 of fees and disbursements, respectively.

In September 1984, the Company sold certain accounts receivable to WCI for $10,100,000. See "Business — The WCI Transaction" and Notes 2, 5 and 9 to the Financial Statements for information regarding other Company's transactions and relationships with WCI.

PRINCIPAL SHAREHOLDERS

The following table sets forth, as of September 15, 1986, certain information regarding the ownership of the Common Stock of the Company by (i) each person who is known by the Company to own beneficially more than 5% of the Common Stock, (ii) each director of the Company, and (iii) all directors and executive officers of the Company as a group.

Name and Address(1)	Number of Shares Beneficially Owned	Percent of Outstanding Shares Beneficially Owned	
		Before Offering	After Offering
Directors and 5% shareholders(2):			
Warner Communications, Inc.(3)	7,100,000	29.88%	25.12%
Jack Tramiel(4)	12,753,815	53.67	45.13
Sam Tramiel	563,067	2.37	1.99
Samuel W.L. Chin	125,000(5)	*	*
Leonard I. Schreiber(6)	110,000	*	*
All directors and executive officers as a group (12 persons)	15,411,913	64.86%	54.53%

* Less than 1%.

(1) The address for all directors and shareholders except WCI is c/o Atari Corporation, 1196 Borregas Avenue, Sunnyvale, CA 94088-3427. The address of WCI is 75 Rockefeller Plaza, New York, NY 10019.

(2) For information as to those shareholders who are officers or directors of the Company, see "Management — Directors and Executive Officers."

(3) The foregoing table reflects shares of Common Stock to be issued to WCI concurrently with consummation of this offering. See "Business — The WCI Transaction" and Notes 2, 5 and 9 to the Financial Statements.

(4) By reason of his position with the Company and his beneficial ownership of Common Stock, Mr. Tramiel may be deemed to be a "parent" of the Company within the meaning of the Securities Act of 1933, as amended. The number of shares indicated in the table as beneficially owned by Mr. Tramiel excludes an aggregate of 1,886,162 shares held by his sons, Sam, Leonard and Garry Tramiel, and an aggregate of 339,346 shares held by 12 other family members, as to which Mr. Tramiel disclaims beneficial ownership.

(5) A portion of these shares may be purchased by the Underwriters in the event the Underwriters' overallotment option is exercised. See "Contingent Selling Shareholders" and "Underwriting."

(6) Does not include 15,000 shares owned by Ellen W. McBride and Laurie L. Fernald, daughters of Mr. Schreiber, as to which Mr. Schreiber disclaims beneficial ownership.

The Contingent Selling Shareholders

The Contingent Selling Shareholders named below have granted the Underwriters an option, exercisable during the 30-day period after the date of this Prospectus, to purchase up to the number of shares

of Common Stock indicated after their names, at the same price per share as the Company will receive for the 4,500,000 shares being purchased by the Underwriters. The Company has concurrently granted the Underwriters an option covering 582,500 shares of Common Stock. The Underwriters may exercise the option only to cover over-allotments. See "Underwriting."

The following table sets forth, as of the date of this Prospectus, the number of outstanding shares of Common Stock owned by the Contingent Selling Shareholders, the number of such shares subject to the Underwriters' over-allotment option, and the number of shares to be held by the Contingent Selling Shareholders assuming the Underwriters' over-allotment option is exercised to the extent of all of the Contingent Shareholders' shares subject to the option.

Name(1)	Shares Beneficially Owned Before Offering	Shares Subject to Over-allotment Option	Shares Beneficially Owned Assuming Option Exercise
Garry Tramiel	754,047	25,000	729,047
Sigmund Hartmann	125,000	12,500	112,500
Gregory A. Pratt	125,000	12,500	112,500
Sam W. L. Chin	125,000	12,500	112,500
David Harris	125,000	12,500	112,500
Taro Tokai	125,000	12,500	112,500
Thomas Brightman	50,000	5,000	45,000

(1) The persons named in the table have sole voting and investment power with respect to all shares of Common Stock shown as being beneficially owned by them. The address of each such person is c/o Atari Corporation, 1196 Borregas Avenue, Sunnyvale, California 94088-3427. Except Garry Tramiel, who owns 2.67% of the outstanding shares of Common Stock after the offering and will own 2.52% assuming the Underwriters' over-allotment option is exercised in full, the percentage of the outstanding shares of Common Stock owned by each such person is less than 1% before and after the offering, regardless of whether the over-allotment option is exercised. Messrs. Tramiel, Pratt, Chin, Tokai and Brightman are executive officers of the Company. See "Management — Directors and Executive Officers." Messrs. Hartmann and Harris have been Vice Presidents of the Company's U.S. subsidiary since November 1984.

Shares Eligible for Future Sale

Upon completion of this offering, the Company will have 28,262,350 shares of Common Stock outstanding. Of these shares, the Common Stock sold in this offering will be freely transferable without restriction or further registration under the Act, except for any shares purchased by an "affiliate" of the Company, as defined under the Act, which will be subject to the resale limitations of Rule 144 adopted under the Act.

The remaining shares of Common Stock outstanding are "restricted" securities within the meaning of Rule 144 (the "Restricted Shares"). The Restricted Shares may not be sold without registration under the Act, except pursuant to an applicable exemption or in reliance upon Rule 144 promulgated under the Act. In general, under Rule 144 as currently in effect, a person (or persons whose shares must be aggregated under Rule 144) who has beneficially owned Restricted Shares for at least two years, including affiliates of the Company, may sell within any three-month period a number of shares that does not exceed the greater of 1% of the then outstanding shares of the Company's Common Stock (approximately 282,624 shares immediately after this offering) or the average weekly trading volume of the Company's Common Stock during the four calendar weeks preceding the filing of the required notice of such sale. Sales under Rule 144 also are subject to certain manner-of-sale restrictions, notice requirements and the availability of current public information about the Company. However, a person who is not deemed to have been an affiliate of the Company at any time during the three months preceding a sale, and who has beneficially owned his or her Restricted Shares for at least three years, would be entitled to sell such shares under Rule 144 without regard to the restrictions described above.

Commencing 90 days after completion of this offering, approximately 489,143 Restricted Shares (which includes 92,500 shares covered by the Underwriters' over-allotment option, which may be sold pursuant to Rule 144, if not purchased by the Underwriters) will be available for sale, from time to time, in the public securities market subject to the restrictions of Rule 144. The Company, Jack Tramiel, WCI and other holders of 25,000 or more shares of Common Stock have agreed that, except as contemplated by this Prospectus, they will not offer, sell or grant any options to purchase or otherwise dispose of any shares of Common Stock owned by them (whether in the public market or by privately negotiated transactions) for a period of 180 days after the date of this Prospectus without the prior written consent of the Representative of the Underwriters. Accordingly, commencing 180 days after the completion of this offering, an additional 21,133,057 Restricted Shares will be eligible for sale from time to time in accordance with the restrictions of Rule 144.

In addition, WCI holds demand registration rights that would permit it to require that Restricted Shares it received in the WCI Transaction be registered under the Act for public sale once each year on up to five occasions. Pursuant to these rights, for six months commencing 180 days after the consummation of this offering, WCI's right to require that the Company register its Restricted Shares may be restricted in the discretion of the managing Underwriter. During the second year following consummation of this offering, WCI could require registration of up to 3.55 million Restricted Shares, and after such two year period, WCI has the right to require registration of Restricted Shares without limitation. WCI also holds certain "piggyback" registration rights that entitle WCI to register its shares concurrently with certain future registrations of additional securities for sale by the Company.

Prior to this offering there has been no public market for the Common Stock of the Company, and no prediction can be made as to the effect, if any, that sales in the public market of Restricted Shares or the availability of Restricted Shares for sale will have on the market price prevailing from time to time. Nevertheless, sales of substantial amounts of Restricted Shares in the public market could adversely affect prevailing market prices.

DESCRIPTION OF CAPITAL STOCK

Common Stock

The Company is authorized to issue up to 100,000,000 shares of Common Stock, $.01 par value per share, of which 28,262,350 shares will be outstanding at the conclusion of this offering.

The holders of Common Stock are entitled to one vote for each share held of record on each matter submitted to a vote of shareholders. Shareholders are not entitled to cumulate their votes in the election of directors of the Company. Meetings of shareholders may be called upon written notice not less than 10 or more than 60 days prior to the date of such meeting. Shareholders holding at least a majority of the voting power may also act by written consent on any matter, except shareholder election of directors, which may only be acted upon at a meeting. Holders of Common Stock are entitled to receive ratably such dividends, if any, as may be declared by the Board of Directors out of funds legally available for dividend distribution after payment of dividends, if any, required to be paid on any Preferred Stock then outstanding. In the event of the liquidation, dissolution or winding up of the Company, holders of Common Stock are entitled to share equally and ratably in all assets, if any, remaining after payment of all liabilities and liquidation rights, if any, of the Preferred Stock then outstanding. The Company has never paid cash dividends on its Common Stock and does not anticipate paying any in the foreseeable future. See "Dividend Policy." Holders of Common Stock have no preemptive rights or rights to subscribe to additional securities of the Company. The Common Stock is neither redeemable nor convertible into any other securities, and there are no sinking fund provisions. The outstanding Common Stock is, and the Common Stock to be outstanding upon completion of this offering will be, fully paid and nonassessable.

As of September 15, 1986, there were 109 holders of record of the Common Stock.

By reason of his position as an officer and director of the Company and his beneficial ownership of Common Stock, Jack Tramiel may be deemed to be a "parent" of the Company within the meaning of the

Securities Act of 1933, as amended. Based upon the number of shares to be outstanding after completion of the offering and the percentage of such shares to be owned by Mr. Tramiel and his family (53% assuming no exercise of the Underwriters' over-allotment option), Mr. Tramiel and his sons will continue to be able to elect a majority of the Board of Directors and to authorize and control most corporate actions.

Preferred Stock

The Company is also authorized to issue up to 10,000,000 shares of Preferred Stock, $.01 par value per share. The Board of Directors is empowered, without further action by the stockholders, to issue from time to time one or more series of Preferred Stock (up to an aggregate of 10,000,000 shares), to fix the dividend rights, dividend rate, conversion rights, right and terms of redemption (including sinking fund provisions), redemption prices, liquidation preferences, voting rights and other terms of any wholly unissued series of Preferred Stock and to determine the designation of and (subject to the aggregate limit of 10,000,000 shares) the number of shares constituting any such unissued series. The Company has no current plans to issue Preferred Stock.

Transfer Agent and Registrar

The Registrar and Transfer Company is the transfer agent and registrar of the Common Stock.

UNDERWRITING

The Underwriters named below, for whom PaineWebber Incorporated is acting as Representative, have severally agreed, subject to the terms and conditions of the Underwriting Agreement, to purchase from the Company, and the Company has agreed to sell to the Underwriters, the number of shares of Common Stock set forth opposite their respective names below:

Underwriter	Number of Shares
PaineWebber Incorporated	
Total	4,500,000

The Underwriting Agreement provides that the obligations of the Underwriters to purchase the shares of Common Stock are subject to certain conditions. The Underwriters are committed to purchase, and the Company is obligated to sell, all the shares of Common Stock offered by this Prospectus if any are purchased.

The Company has been advised by the Representative that the Underwriters propose to offer the shares of Common Stock to the public at the initial public offering price set forth on the cover page of this Prospectus, and to certain securities dealers at such price less a concession not in excess of $ per share. The Underwriters may allow, and such dealers may reallow, concessions of not more than $ per share to certain other dealers. After the initial public offering, the public offering price and concessions may be changed by the Representative.

The Underwriters have obtained an option from the Company and the Contingent Selling Shareholders, exercisable during the 30-day period after the date of this Prospectus, under which they may purchase up to 582,500 additional shares of Common Stock from the Company and 92,500 additional shares of Common Stock from the Contingent Selling Shareholders at the same price per share as the Company will receive for the 4,500,000 shares being purchased by the Underwriters. See "Principal Shareholders — Contingent Selling Shareholders."

The Underwriters may exercise the option only to cover over-allotments. In the event the Underwriters exercise the option, each Underwriter will be obligated, subject to certain conditions, to purchase the number of additional shares of Common Stock as to which the option is exercised proportionate to such Underwriter's initial commitment. The Company and the Contingent Selling Shareholders have agreed with the Underwriters that, in the event the option is exercised, the Underwriters will purchase first the shares held by the Contingent Selling Shareholders subject to the option, in proportion to the number of shares subject to the option. Any additional shares as to which the option is exercised will be purchased from the Company.

The Company and the Contingent Selling Shareholders have agreed to indemnify the Underwriters and their controlling persons against certain liabilities under the Act or to contribute to payments the Underwriters may be required to make in respect of such liabilities.

The Representative has informed the Company that it does not expect the Underwriters to confirm sales of shares of Common Stock offered by this Prospectus to discretionary accounts.

The Company and its shareholders holding more than 25,000 shares of Common Stock have agreed not to offer or sell any shares of Common Stock for a period of 180 days after the date of this Prospectus without the prior written consent of the Representative; provided, however, that beginning 90 days after the date of this Prospectus each Contingent Selling Shareholder is entitled to sell, without the Representative's prior written consent but subject to the restrictions, if applicable, of Rule 144 under the Act, the number of such Contingent Selling Shareholder's shares subject to the over-allotment option which are not purchased by the Underwriters upon any exercise of the option.

Prior to this offering there has been no public market for the Common Stock of the Company. The initial public offering price of the shares covered by this Prospectus has been determined by negotiation between the Company and the Representative of the Underwriters. Among the factors considered in determining the public offering price were the Company's operating results in recent periods, estimates of its business prospects, an assessment of management, the general condition of the securities markets, prevailing market and general economic conditions, and recent price-earnings ratios and market prices of securities of comparable companies.

LEGAL MATTERS

Certain legal matters relating to the shares of Common Stock offered by this Prospectus will be passed upon for the Company by Gibson, Dunn & Crutcher, One Almaden Boulevard, Suite 1000, San Jose, California 95113 and for the Underwriters by Cravath, Swaine & Moore, One Chase Manhattan Plaza, New York, New York 10005.

EXPERTS

The consolidated financial statements as of December 31, 1984 and 1985 and June 30, 1986 and for the period from May 17, 1984 (inception) to December 31, 1984, the year ended December 31, 1985 and the six months ended June 30, 1986 included in this Prospectus and the related supplemental schedules included elsewhere in the Registration Statement have been examined by Deloitte Haskins & Sells, independent public accountants, as stated in their opinions appearing herein and elsewhere in this Registration Statement, and have been so included in reliance upon such opinions given upon the authority of that firm as experts in accounting and auditing. In addition, the historical selected financial data for the periods stated above, appearing on page 10, has been derived from amounts in the consolidated financial statements examined by Deloitte Haskins & Sells as stated in their opinion appearing in this Prospectus.

ADDITIONAL INFORMATION

The Company has filed a Registration Statement with the Securities and Exchange Commission, Washington, D.C. in accordance with the provisions of the Securities Act of 1933. This Prospectus does not contain all of the information set forth in the Registration Statement, certain portions of which have been omitted as permitted by the Rules and Regulations of the Commission. For further information pertaining to the Common Stock offered by this Prospectus and to the Company, reference is made to the Registration Statement, including the exhibits filed as a part thereof. Statements in this Prospectus concerning the provisions of any document are not necessarily complete and, in each instance, reference is made to the copy of such document filed as an exhibit to the Registration Statement. Each such statement is qualified in its entirety by such reference. The Registration Statement may be obtained from the Securities and Exchange Commission upon payment of the prescribed fees and may be examined at the principal office of the Commission in Washington, D.C.

OPINION OF INDEPENDENT PUBLIC ACCOUNTANTS

Atari Corporation:

We have examined the consolidated balance sheets of Atari Corporation and subsidiaries as of December 31, 1984 and 1985 and June 30, 1986 and the related consolidated statements of operations, shareholders' equity and changes in financial position for the period from May 17, 1984 (inception) to December 31, 1984, the year ended December 31, 1985 and the six months ended June 30, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of the companies at December 31, 1984 and 1985 and June 30, 1986 and the results of their operations and the changes in their financial position for the periods stated above, in conformity with generally accepted accounting principles applied on a consistent basis. Also, in our opinion, the historical information set forth in the selected financial data for the periods stated above, appearing on page 10, is fairly stated in all material respects in relation to the consolidated financial statements from which it has been derived.

Deloitte Haskins & Sells

DELOITTE HASKINS & SELLS

San Jose, California
September 15, 1986

ATARI CORPORATION

CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31, 1984	December 31, 1985	June 30, 1986
	(dollars in thousands)		
CURRENT ASSETS:			
Cash and temporary cash investments (including restricted cash held in escrow fund (see Note 2): 1985, $9,986; 1986, $6,140)	$ 20,752	$ 26,414	$ 29,402
Warrants to purchase WCI common stock (Note 2)	4,000	—	—
Trade receivables (less allowance: $3,701, $2,704, $2,770)	55,845	22,241	19,333
Inventories (Notes 2 and 3)	84,843	77,181	72,169
Prepaid expenses and supplies	1,073	682	1,338
Total current assets	166,513	126,518	122,242
PROPERTY — Net (Notes 2 and 4)	12,250	6,803	6,139
OTHER ASSETS	6,500	5,723	5,907
TOTAL	$185,263	$139,044	$134,288

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:			
Current maturities of long-term obligations	$ 1,788	$ 13,330	$ 4,716
Accounts payable	86,536	55,985	48,289
Income taxes payable	—	—	2,802
Deferred revenue	3,013	619	435
Accrued liabilities (Note 7)	61,356	44,835	26,268
Total current liabilities	152,693	114,769	82,510
LONG-TERM OBLIGATIONS (Note 5)	39,469	43,752	60,262
COMMITMENTS (Note 6) AND CONTINGENT LIABILITIES (Note 12)			
SHAREHOLDERS' EQUITY (Note 9):			
Preferred stock, $.01 par value — authorized 10,000,000 shares; none outstanding	—	—	—
Common stock, $.01 par value — authorized, 100,000,000 shares; outstanding: 1984, 15,035,000 shares; 1985, 16,341,350 shares; 1986, 16,587,600 shares	150	163	166
WCI stock right (Note 2)	27,500	27,500	27,500
Additional paid-in capital	29,920	32,596	33,188
Notes receivable from sale of common stock	(1,257)	(1,642)	(1,921)
Accumulated deficit	(62,758)	(77,072)	(64,672)
Accumulated translation adjustments	(454)	(1,022)	(2,745)
Total shareholders' equity (deficiency)	(6,899)	(19,477)	(8,484)
TOTAL	$185,263	$139,044	$134,288

See notes to consolidated financial statements.

ATARI CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	May 17, 1984 (Inception) to December 31, 1984	Year Ended December 31, 1985	Six Months Ended June 30, 1985 (unaudited)	Six Months Ended June 30, 1986
	(in thousands, except per share data)			
NET SALES:				
New and redesigned products	$ 16,115	$ 47,817	$ 6,766	$ 89,069
Purchased products (Note 2)	94,565	94,170	40,886	16,517
Total	110,680	141,987	47,652	105,586
COSTS AND EXPENSES:				
Cost of sales:				
New and redesigned products	9,476	28,666	4,355	49,284
Purchased products	129,050	100,133	49,089	16,029
Liquidation and transition costs (Note 2)	13,131	4,966	4,966	—
Research and development	3,451	9,452	4,569	6,216
Marketing and distribution	10,630	17,536	7,544	11,957
General and administrative	6,397	7,053	3,465	5,221
Total	172,135	167,806	73,988	88,707
OPERATING INCOME (LOSS)	(61,455)	(25,819)	(26,336)	16,879
Other income — net	1,883	19,904	3,750	2,385
Interest income	1,824	741	351	872
Interest expense	(5,010)	(9,140)	(4,440)	(4,934)
Income (loss) before income taxes and extraordinary credit	(62,758)	(14,314)	(26,675)	15,202
Provision for income taxes	—	—	—	6,735
Income (loss) before extraordinary credit	(62,758)	(14,314)	(26,675)	8,467
Extraordinary credit — tax reduction from use of net operating loss carryforwards	—	—	—	3,933
NET INCOME (LOSS)	$(62,758)	$(14,314)	$(26,675)	$ 12,400
EARNINGS (LOSS) PER COMMON AND EQUIVALENT SHARE (Note 1):				
Income (loss) before extraordinary credit	$ (2.78)	$ (.62)	$ (1.18)	$ .38
Net income (loss)	$ (2.78)	$ (.62)	$ (1.18)	$ .56
Number of shares used in the computation	22,554	23,033	22,593	23,762

See notes to consolidated financial statements.

ATARI CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Period from May 17, 1984 (Inception) Through June 30, 1986

	Common Stock		WCI Stock Right	Additional Paid-in Capital	Notes Receivable from Sale of Common Stock	Accumulated Deficit	Accumulated Translation Adjustments	Total
	Shares	Amount						
				(amounts in thousands)				
Common stock sold	16,142	$161		$32,122	$(1,372)			$ 30,911
Stock right issued to WCI for net assets acquired			$27,500					27,500
Common stock repurchased	(1,107)	(11)		(2,202)				(2,213)
Payments on notes receivable					115			115
Translation adjustments							$ (454)	(454)
Net loss						$(62,758)		(62,758)
BALANCES, DECEMBER 31, 1984	15,035	150	27,500	29,920	(1,257)	(62,758)	(454)	(6,899)
Common stock sold	1,416	14		2,895	(568)			2,341
Common stock repurchased	(110)	(1)		(219)	33			(187)
Payments on notes receivable					150			150
Translation adjustments							(568)	(568)
Net loss						(14,314)		(14,314)
BALANCES, DECEMBER 31, 1985	16,341	163	27,500	32,596	(1,642)	(77,072)	(1,022)	(19,477)
Common stock sold	254	3		611	(614)			—
Common stock repurchased	(7)	—		(19)	19			—
Payments on notes receivable					316			316
Translation adjustments							(1,723)	(1,723)
Net income						12,400		12,400
BALANCES, JUNE 30, 1986	16,588	$166	$27,500	$33,188	$(1,921)	$(64,672)	$(2,745)	$ (8,484)

See notes to consolidated financial statements.

ATARI CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	May 17, 1984 (inception) to December 31, 1984	Year Ended December 31, 1985	Six Months Ended June 30, 1985	Six Months Ended June 30, 1986
		(in thousands)	(unaudited)	
FUNDS PROVIDED FROM:				
Operations:				
Income (loss) before extraordinary credit	$(62,758)	$(14,314)	$(26,675)	$ 8,467
Depreciation and amortization not requiring working capital	752	2,516	987	1,076
Total provided from (used by) operations	(62,006)	(11,798)	(25,688)	9,543
Extraordinary credit				3,933
Common stock sold — net	28,813	2,304		316
Net assets acquired from WCI for:				
Stock right	27,500			
Long-term obligation	24,665			
Working capital included in net assets acquired from WCI	44,952			
Disposal of property	911	6,068	2,071	2,384
Additions to long-term obligations	1,752	4,283	2,117	16,510
Total	66,587	857	(21,500)	32,686
FUNDS USED FOR:				
Net assets acquired from WCI	52,165			
Property purchases	148	1,906	874	1,958
Effect of exchange rate changes on working capital	454	1,022	287	2,745
Total	52,767	2,928	1,161	4,703
INCREASE (DECREASE) IN WORKING CAPITAL	$ 13,820	$ (2,071)	$(22,661)	$27,983
INCREASE (DECREASE) IN WORKING CAPITAL BY COMPONENT:				
Cash and temporary cash investments	$ 20,752	$ 5,662	$(15,482)	$ 2,988
Warrants	4,000	(4,000)	—	—
Receivables	55,845	(33,604)	(28,058)	(2,908)
Inventories	84,843	(7,662)	(12,800)	(5,012)
Prepaid expenses and supplies	1,073	(391)	807	656
Current maturities of long-term debt	(1,788)	(11,542)	(7,210)	8,614
Accounts payable	(86,536)	30,551	25,459	7,696
Income taxes payable	—	—	—	(2,802)
Deferred revenue	(3,013)	2,394	376	184
Accrued liabilities	(61,356)	16,521	14,247	18,567
INCREASE (DECREASE) IN WORKING CAPITAL	$ 13,820	$ (2,071)	$(22,661)	$27,983

See notes to consolidated financial statements.

ATARI CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization — The Company (formerly Tramel Technology, Ltd.) was formed on May 17, 1984 to design, manufacture, sell and service personal computers and related software and peripheral products. The principal methods of distribution are through computer specialty dealers and mass market retailers.

Principles of consolidation — The consolidated financial statements include the Company and its subsidiaries. All transactions and balances between the companies are eliminated.

Inventories are stated at the lower of cost or market. Cost of manufactured products is computed using standard costs which approximate cost on a first-in, first-out basis.

Property is stated at cost (see Note 2). Depreciation is computed using the straight-line method based on estimated useful lives of the assets of 2 to 27 years. Leases and leasehold improvements are amortized over the estimated useful life or lease term, as appropriate.

Revenue recognition — Sales are recognized upon shipment.

Research and development expenditures are expensed as incurred.

Income taxes — Deferred taxes are provided for timing differences between pretax accounting income and taxable income and relate primarily to depreciation and amortization and certain accruals. Investment tax credits reduce the provision for income taxes when realizable.

Provisions are made for estimated United States and foreign taxes which may be incurred on remittance of undistributed earnings of the Company's subsidiaries. Possible taxes beyond those provided would not be material.

Foreign currency translation — Assets and liabilities of operations outside the United States, except for operations that are highly integrated with operations of the Company (principally in Taiwan), are translated into United States dollars using current exchange rates, and the effects of foreign currency translation adjustments are deferred and included as a component of shareholders' equity. For operations that are highly integrated, foreign currency translation adjustments are included in operations. Exchange and translation gains (losses) included in operations for the period ended December 31, 1984, the year ended December 31, 1985 and the six months ended June 30, 1986 were $(764,000), $1,884,000 and $1,478,000, respectively.

Earnings (loss) per common and equivalent share — Net income per share is computed based on the weighted average number of common and equivalent shares outstanding during the period. Net loss per share is computed based on the weighted average number of shares of common stock outstanding and excludes common stock equivalents as they would be anti-dilutive. Common stock issuable to WCI upon completion of this offering (7,100,000 shares, see Note 2) has been treated as outstanding for all periods in calculating net income (loss) per common and equivalent share because such shares will have been issued at prices substantially below the proposed public offering price. Interest expense of $922,000, or $.04 per share ($498,000 net of income taxes, or $.02 per share) related to the 10.5% notes due WCI (see Notes 2 and 5) has been added to net income and income before extraordinary credit, respectively, in calculating earnings per share for the six months ended June 30, 1986.

Unaudited financial statements — Information with respect to the six months ended June 30, 1985 is unaudited. In the opinion of management, such information contains all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the results for such periods.

2. ACQUISITION AND WCI TRANSACTIONS

Effective July 2, 1984, Atari Corporation acquired certain assets from and assumed certain liabilities of certain associated entities of Warner Communications, Inc.'s (collectively referred to as "WCI") Atari home computer and home video game product lines and received warrants (valued at $4,000,000) to buy

1,000,000 shares of Warner Communications, Inc. common stock at $22 per share through July 1, 1989 (the "WCI warrants"). Pursuant to the assets purchase agreement, the Company's securities given in exchange for those net assets were subject to adjustment based upon the Company's and WCI's subsequent evaluation of the nature and extent of the assets acquired and the liabilities assumed by the Company. In August 1986, the Company and WCI completed such evaluation and agreed upon the adjusted consideration for the net assets acquired. Such consideration consists of a $24.7 million obligation due in June 1994 and a stock right (valued at $27.5 million) which is convertible into 3,550,000 shares of common stock (see Note 9). The obligation is stated at the principal balance plus accrued interest at 17% from July 2, 1984. This acquisition was accounted for as a purchase.

The fair value assigned to assets acquired and liabilities assumed were as follows (in thousands):

Warrants	$ 4,000
Accounts receivable	44,911
Inventories	135,371
Property	14,921
Other assets	9,840
Current liabilities	(143,326)
Other long-term liabilities	(13,552)
	$ 52,165

In November 1985, WCI repurchased the WCI warrants for $15 million, of which $13.9 million was placed in escrow and restricted to cover certain claims and pending actions against the Company arising from the product lines acquired from WCI (see Note 12). The gain of $11,000,000 from sale of the WCI warrants is included in other income in 1985.

As part of the acquisition agreement, WCI agreed to loan to the Company up to $25 million at 10.5% to pay down liabilities assumed. At June 30, 1986, the Company had borrowed approximately $24.7 million (see Note 5). If a public offering (such as the one contemplated by this Prospectus) is completed before August 18, 1987, these notes plus accrued interest will be automatically converted into an additional 3,550,000 shares of common stock. If such an offering is not completed before August 18, 1987, WCI has the option to convert $15 million of such notes plus accrued interest into 3,550,000 shares of common stock.

In connection with this acquisition, the Company obtained certain products which were not consistent with its long-range business strategy. Accordingly, the Company instituted a plan to liquidate the inventory and a portion of the manufacturing and distribution facilities acquired; the related product sales and costs are classified as purchased products in the consolidated statements of operations. In addition, certain employment and occupancy costs incurred by the Company in the liquidation of the assets acquired have been classified as liquidation and transition costs in the consolidated statements of operations.

In September 1984, the Company sold certain accounts receivable to WCI for $10,100,000.

3. INVENTORIES

Inventories consist of the following:

	December 31, 1984	December 31, 1985	June 30, 1986
		(in thousands)	
Raw materials and work-in-process	$44,302	$21,093	$23,320
Finished goods	40,541	56,088	48,849
Total	$84,843	$77,181	$72,169

At June 30, 1986, remaining inventories purchased from WCI (see Note 2) were approximately $22,591,000.

4. PROPERTY

Property consists of:

	December 31, 1984	December 31, 1985	June 30, 1986
	(in thousands)		
Land	$ 2,526	$2,526	$ 2,526
Buildings	1,825	1,825	1,825
Machinery and equipment	7,436	4,732	3,772
Furniture and fixtures	1,012	538	714
Leasehold improvements	3	69	177
Total	12,802	9,690	9,014
Accumulated depreciation and amortization	(552)	(2,887)	(2,875)
Property — net	$12,250	$6,803	$ 6,139

5. LONG-TERM OBLIGATIONS

Long-term obligations consist of:

	December 31, 1984	December 31, 1985	June 30, 1986
	(in thousands)		
Obligation due WCI in June 1994 (including accrued interest at 17%, see Note 2)	$26,762	$31,504	$34,182
Notes due WCI in August 1991 (interest at 10.5%, see Note 2)	—	10,367	24,737
Notes due principal shareholder (interest at 12%, see Note 11)	500	8,698	1,840
Other obligations	13,995	6,513	4,219
Total	41,257	57,082	64,978
Current maturities	(1,788)	(13,330)	(4,716)
Long-term obligations	$39,469	$43,752	$60,262

The 17% obligation due WCI in June 1994 is to be paid from the proceeds of the offering contemplated by this Prospectus.

The 10.5% notes due WCI will be automatically converted into 3,550,000 shares of common stock upon completion of the offering contemplated by this Prospectus.

As of June 30, 1986, maturities of long-term obligations (excluding the obligation and notes due WCI) are: 1986 (six months), $3,613,000; 1987, $1,640,000 and 1988, $806,000.

6. COMMITMENTS

The Company leases various facilities and equipment under noncancellable lease arrangements. The major facilities leases are for terms of one to ten years and are accounted for as operating leases. These leases generally provide renewal options of five additional years. Minimum future lease payments under all noncancellable leases as of December 31, 1985 are as follows:

	Operating Leases (in thousands)
1986	$ 2,002
1987	1,877
1988	1,738
1989	1,636
1990	1,406
Later years	2,672
Total minimum lease payments	$11,331

Rent expense for all operating leases was $2,428,000, $3,670,000 and $1,242,000 for the period ended December 31, 1984, the year ended December 31, 1985 and the six months ended June 30, 1986, respectively.

7. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	December 31, 1984	December 31, 1985	June 30, 1986
	(in thousands)		
Accrued royalties	$19,904	$21,463	$ 5,866
Accrued claims and litigation expense	13,594	9,725	6,132
Accrued customer allowances	19,972	7,497	8,848
Other	7,886	6,150	5,422
Total	$61,356	$44,835	$26,268

8. INCOME TAXES

The provision for income taxes consists of:

	Six Months Ended June 30, 1986 (in thousands)
Current foreign	$2,802
Charge equal to reduction in income taxes from use of net operating loss carryforward	3,933
Total	$6,735

Income (loss) before income taxes for the period ended December 31, 1984, the year ended December 31, 1985 and the six months ended June 30, 1986 include income (losses) of $(3,493,000), $(12,463,000) and $6,986,000, respectively, from the Company's foreign subsidiaries.

4

The effective income tax rate for the six months ended June 30, 1986 was 44%. The effective rate differs from the Federal statutory rate of 46% as follows:

	Six Months Ended June 30, 1986 (In thousands)
Computed at 46%	$6,993
Effect of foreign rates less than statutory rate	(2,355)
Effect of foreign losses providing no tax benefit	1,930
Other	167
Provision for income taxes	$6,735

At June 30, 1986, net operating loss carryforwards of $16,800,000 are available for tax purposes to offset future Federal taxable income. For financial reporting purposes, such net operating loss carryforwards total $45,900,000. These carryforwards expire beginning in 1999 through the year 2000.

9. SHAREHOLDERS' EQUITY

All shares and per share amounts have been adjusted to reflect a one-for-two reverse stock split in September 1986.

WCI Stock Right

Significant terms of the WCI stock right are as follows:

If a public offering (such as the one contemplated by this Prospectus) is completed before August 18, 1987, the stock right will be automatically converted into 3,550,000 shares of common stock. If such an offering is not completed before August 18, 1987, the Company will issue 700,000 shares of convertible preferred stock to WCI. Significant terms of this preferred stock would be as follows:

- The preferred stock would be convertible into an aggregate of 3,550,000 shares of common stock (subject to adjustment for events of dilution).
- The preferred stock would have the same voting rights as the common stock into which it is convertible.
- In the event of liquidation or dissolution of the Company, the preferred shareholder would receive $100 per share plus any declared but unpaid dividends prior to any distribution to the common shareholders.
- The preferred stock would participate as to dividends and all other distributions as if it were converted into 3,550,000 shares of common stock.

Common Stock

At June 30, 1986, founders and employees of the Company have purchased 16,587,600 common shares under stock purchase agreements at fair market value as determined by the Board of Directors. The employees' shares generally vest 20% at the end of each of the initial five years of employment. At June 30, 1986, 4,276,000 shares were subject to repurchase.

In 1986, the Company adopted a stock option plan. The plan provides for the issuance of both incentive stock options to employees and non-qualified stock options to employees, directors and consultants. Under the plan, options to purchase up to 1,000,000 shares of common stock may be granted at not less than fair market value as determined by the Board of Directors, become exercisable as established by the Board (generally ratably over 5 years) and expire 10 years from date of grant.

In 1985 the Company granted certain employees rights to purchase a total of 39,000 shares of common stock at $6.00 per share. The Company intends to exchange these rights during 1986 for incentive stock options to purchase common stock at fair market value on the date of exchange. At that time, the Company intends to pay these employees the excess, if any, between the fair market value of the stock and $6.00 per share. At

June 30, 1986, options to purchase 12,000 shares at $5.00 per share had been granted and were exercisable and options for 949,000 shares were available for future grant.

At June 30, 1986, the Company had reserved shares of common stock for issuance as follows:

Conversion of WCI stock right	3,550,000
Conversion of 10.5% notes due WCI	3,550,000
Stock plans	1,000,000
Total	8,100,000

10. SEGMENT INFORMATION

The Company operates in one industry segment — the design, manufacture, sale and servicing of consumer electronic products.

The Company's foreign operations consist of manufacturing facilities in the Far East and distribution facilities in Europe and Canada. Transfers between geographic areas are accounted for at amounts generally above cost. Corporate assets are cash and temporary cash investments. The following table presents a summary of operations by geographic region.

	May 17, 1984 (inception) to December 31, 1984	Year Ended December 31, 1985	Six Months Ended June 30, 1986
	(In thousands)		
Revenues from unaffiliated customers:			
North America:			
Domestic	$ 63,012	$ 56,599	$ 43,278
Export sales	689	33,745	20,297
Europe	45,119	47,213	41,934
Far East	1,860	4,430	77
Total	$110,680	$141,987	$105,586
Transfers from geographic areas (eliminated in consolidation):			
North America	$ 10,928	$ 53,281	$ 27,969
Europe	27,206	32,694	2,389
Far East	132,078	143,332	57,016
Total	$170,212	$229,307	$ 87,374
Operating income (loss):			
North America	$(45,996)	$(10,967)	$ 7,920
Europe	(16,071)	(9,511)	9,864
Far East	612	(5,341)	(905)
Total	$(61,455)	$(25,819)	$ 16,879
Identifiable assets at period end:			
North America	$ 90,454	$ 63,483	$ 59,529
Europe	47,264	27,623	22,372
Far East	22,793	21,524	22,985
Corporate assets	24,752	26,414	29,402
Total	$185,263	$139,044	$134,288

11. RELATED PARTY TRANSACTIONS

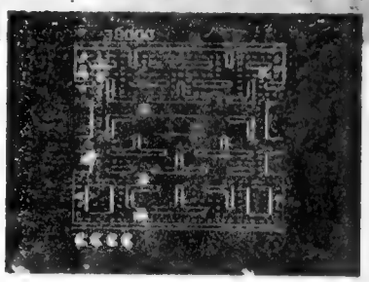
In 1985, the Company entered into an agreement with its principal shareholder which provided the Company with additional working capital. The maximum amounts outstanding under this arrangement for the year ended December 31, 1985, and the six months ended June 30, 1986 were $10,152,000 and $8,623,000, respectively. Interest was charged at 12%. All amounts were repaid as of June 30, 1986.

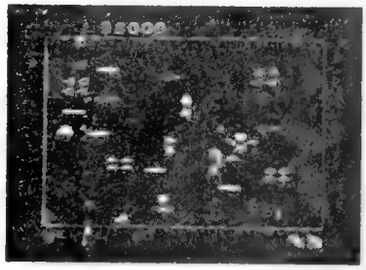
In November 1984, the Company and its principal shareholder entered into a research and development agreement whereby the Company received $500,000 to develop the ST line of computers. In February 1986, the Company exercised its option under the agreement and acquired the principal shareholder's interest for $575,000.

In 1986 the Company issued promissory notes to a supplier for $3,780,680. The notes are due within one year and do not bear interest. The Company's principal shareholder purchased these notes from the supplier at a 12% discount. At June 30, 1986 $1,840,000 of these notes were outstanding and classified as notes due principal shareholder.

12. CONTINGENT LIABILITIES

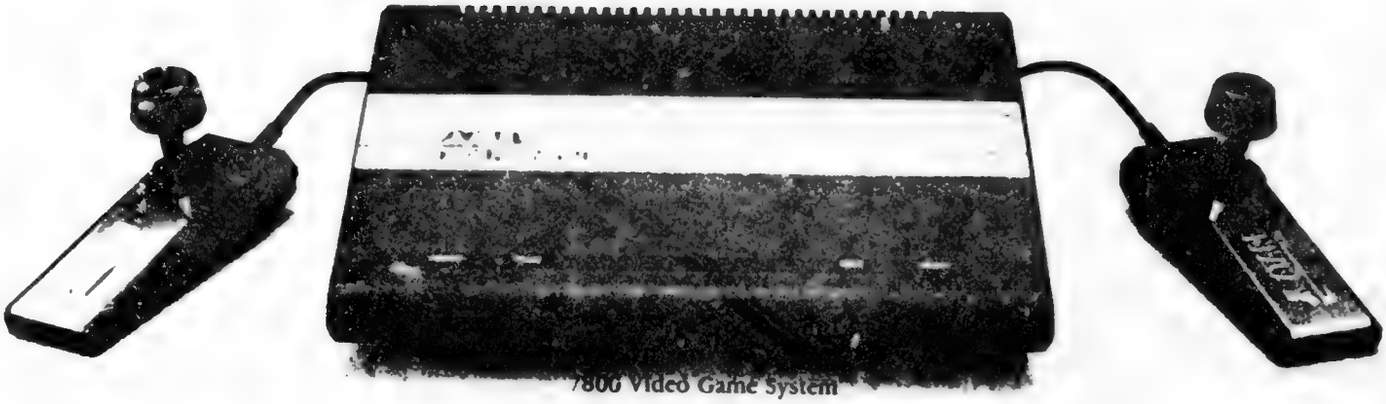
There are various claims and pending actions against the Company with respect to alleged damages in connection with vendor and supplier claims and other matters arising out of the Company's acquisition of certain assets and assumption of certain liabilities of WCI's Atari home computer and home video game product lines. The Company established a $13.9 million escrow fund to satisfy certain of these actions. The amounts of liability on all remaining claims and actions at June 30, 1986 were not determinable but management believes, after consultation with counsel, the ultimate liability resulting therefrom will not materially affect the consolidated financial position of the Company.





Atari line of Video Systems.

2600 Video Game System



7800 Video Game System

No person is authorized in connection with any offering made by this Prospectus to give any information or to make any representation other than as contained in this Prospectus, and, if given or made, such information or representations must not be relied upon as having been authorized by the Company or the Underwriters. This Prospectus is not an offer to sell, or a solicitation of an offer to buy, by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation. Neither the delivery of this Prospectus nor any sale made hereunder shall under any circumstances create any implication that the information contained herein is correct as of any time subsequent to the date of this Prospectus.

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Until , 1987 (90 days after the date of this Prospectus), all dealers effecting transactions in the Common Stock, whether or not participating in this distribution, may be required to deliver a Prospectus. This delivery requirement is in addition to the obligation of dealers to deliver a Prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

4,500,000 Shares

ATARI

ATARI CORPORATION

Common Stock

PROSPECTUS

PaineWebber
Incorporated

, 1986

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

Set forth below is a table of all the estimated expenses incurred in connection with the issuance and distribution of the securities described in this Registration Statement:

Securities and Exchange Commission registration fee	$13,973
NASD filing fee	5,100
Printing and engraving expenses	*
Blue Sky fees and expenses	*
Legal fees and expenses	*
Accounting fees and expenses	*
Transfer agent and registrar fees	*
American Stock Exchange listing fee	77,500
Miscellaneous expenses	*
Total	$ *

* To be completed by amendment.

Item 14. Indemnification of Directors and Officers

Without limiting the indemnification rights provided by any bylaw, agreement, vote of shareholders or disinterested directors or otherwise, Section 78.751 of the Nevada Revised Statutes grants Registrant the power to indemnify its directors, officers, employees and agents under certain circumstances. Pursuant to that code section, Registrant is required to indemnify a director, officer, employee or agent of Registrant who has successfully defended an action by or in the right of Registrant, or against such person in his or her capacity as a director, officer, employee or agent of Registrant, against expenses actually and reasonably incurred in connection with such defense. Registrant's Articles of Incorporation also provide for such indemnification, including the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of Registrant against liability asserted against or incurred by such person in any such capacity, whether or not Registrant would have the power to indemnify such person against such liability under the foregoing code section.

Reference is made to Section 7 of the Underwriting Agreement, a copy of which is filed as Exhibit 1.1 hereto, for information concerning indemnification among Registrant and the Underwriters.

Item 15. Recent Sales of Unregistered Securities

The number of shares and all share data in this Item 15 have been adjusted to reflect a one-for-two reverse stock split effected September 12, 1986.

(1) The Company has granted options to employees to purchase the following shares of Common Stock pursuant to the 1986 Stock Option Plan:

Date of Grant	Number of Grantees	Aggregate Number of Shares	Exercise Price Per Share
2/01/86	5	12,000	$5.00
8/15/86	2	4,000	6.00

No consideration was received by the Company upon the grant of the options. None of the options has been exercised.

(2) In July, August and September 1984, the Company issued an aggregate of 15,000,000 shares to Jack, Sam, Garry and Leonard Tramiel for cash aggregating $30,000,000 ($2 per share). During 1984 and through July 1985 the Company repurchased 1,156,500 shares from Jack Tramiel in connection with sales

of shares to certain employees. In July 1985 the Company sold 1,156,500 shares to Mr. Tramiel for $2,313,000 ($2.00 per share).

(3) The Company has issued the following shares of Common Stock to its employees and to a consultant to the Company pursuant to stock purchase agreements:

Date of Sale	Number of Shares Sold	Name or Class of Purchaser	Consideration Received
10-26-84	836,500	24 employees	$1,673,000 in cash and promissory notes ($2 per share)
11-9-84 to 11-30-84	145,000	2 employees and 1 consultant	$290,000 in cash and promissory notes ($2 per share)
10-18-85 to 12-6-85	179,850	11 employees	$433,750 in cash and promissory notes ($2.41 average price per share)
1-1-86 to 2-1-86	22,500	2 employees	$53,300 in cash and promissory notes ($2.37 average price per share)
5-15-86 to 6-30-86	106,250	9 employees	$263,500 in cash and promissory notes ($2.48 average price per share)
8-14-86 to 9-8-86	31,000	5 employees	$186,000 in cash and promissory notes ($6 per share)

(4) On various dates through August 1986, the Company sold an aggregate of 408,750 shares to 22 employees who were foreign nationals resident outside of the United States, for an aggregate consideration of $921,750 in cash and promissory notes ($2.58 average price per share).

(5) The Company has agreed to exchange $7.1 million shares with affiliated entities of Warner Communications, Inc. as partial consideration for certain rights and securities issued to such entities for net assets transferred to the Company in July 1984, and in satisfaction of $24.7 million of working capital loans to the Company from such entities since the 1984 asset acquisition, and accrued interest, as described under "Business — The WCI Transaction."

The promissory notes given in consideration for the foregoing issuances of shares bear interest at 10% to 12% per annum, not to exceed the maximum rate allowed by law, and are due and payable on demand.

No underwriters were employed in connection with the foregoing sales of securities. Except for shares issued to foreign resident employees, such sales were made in reliance on the exemption from the registration provisions of the Securities Act of 1933 provided by section 4(2) thereof, relating to sales by an issuer not involving any public offering. Sales made to foreign resident employees were not subject to the Securities Act of 1933.

Item 16. Exhibits and Financial Statement Schedules

(a) Exhibits:

1	Proposed form of Underwriting Agreement
2.1	Memorandum of Agreement among Registrant, Jack Tramiel, Atari Holdings, Inc., Productions et Editions Cinematographiques Francais S.A.R.L., Atari International (UK) Inc., Warner Communications Inc. and certain subsidiaries of Atari Holdings, Inc., dated August 29, 1986
2.2	Assets Purchase Agreement with Atari, Inc. and certain subsidiaries and affiliates of Atari, Inc., dated July 1, 1984
2.3	Agreement with Atari, Inc. and Jack Tramiel, dated July 1, 1984
2.4	Intellectual Property Rights Heads of Agreement with Atari, Inc., dated July 1, 1984
2.5*	Escrow Agreement with Atari, Inc. Schreiber and McBride, dated November 14, 1985, with amendments
2.6	Letter Agreement with Atari Holdings, Inc. and Warner Communications, Inc., dated November 14, 1985, regarding purchase of warrants

3.1	Articles of Incorporation of Registrant, as filed May 17, 1984
3.2	Certificate of Amendment of Articles of Incorporation, as filed July 11, 1984
3.3	Certificate of Amendment of Articles of Incorporation, as filed September 12, 1986
3.4	Bylaws of Registrant
5 *	Opinion of Gibson, Dunn & Crutcher
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10.6	Settlement Agreement and Mutual Release with Tandon Corporation, dated September 12, 1985
10.7	Lease Agreement for 1196 Borregas Avenue, Sunnyvale, California, dated July 1980, with Assignment to Registrant
10.8	Industrial Lease Agreement for Warehouse at 360 Carribean Drive, Sunnyvale, California, dated May 10, 1976
10.9	Industrial Lease Agreement for Warehouse at 390 Carribean Drive, Sunnyvale, California, dated December 17, 1986
22	Subsidiaries of Registrant
24.1	Consent of Gibson, Dunn & Crutcher (included in Exhibit 5 to this Registration Statement)
24.2	Consent of Deloitte Haskins & Sells (included as page II-6 to this Registration Statement)
25	Power of Attorney (included in signature page to this Registration Statement)

(b) Financial Statement Schedules:

Schedule IV — Indebtedness to Related Parties — Not Current
Schedule VIII — Valuation and Qualifying Accounts
Schedule X — Supplementary Income Statement Information

All other financial statement schedules are omitted either because of the absence of the conditions required or because the information called for is shown in the consolidated financial statements and notes thereto.

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* To be filed by amendment.

Item 17. Undertakings

The undersigned Registrant hereby undertakes to provide to the Underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions described in Item 14, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Sunnyvale, State of California on September 6, 1986.

ATARI CORPORATION

By: _____

Sam Tramiel
President

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints Sam Tramiel, Leonard I. Schreiber and Gregory A. Pratt, jointly and severally, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments (including post-effective amendments) to this Registration Statement, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
Jack Tramiel	Chairman of the Board, Chief Executive Officer and Director	Sept. 16, 1986
Sam Tramiel	President, Chief Operating Officer and Director	Sept. 16, 1986
Gregory A. Pratt	Vice President—Finance (Chief Financial Officer and Chief Accounting Officer)	Sept. 16, 1986
Leonard I. Schreiber	Director	Sept. 16, 1986
Samuel W. L. Chin	Vice President—Manufacturing and Director	Sept. 16, 1986

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

Atari Corporation:

We hereby consent to the use in this Registration Statement on Form S-1 of our opinion dated September 15, 1986, appearing in the Prospectus which is part of this Registration Statement, and to the reference to us under the headings "Selected Financial Data" and "Experts" in such Prospectus.

We also consent to our opinion referred to above being considered as comprehending our opinion that the supplemental schedules of Atari Corporation for the period from May 17, 1984 (inception) to December 31, 1984 and the year ended December 31, 1985, listed in Item 16(b) of this Registration Statement, when considered in relation to the basic consolidated financial statements, present fairly in all material respects the information shown therein.

Deloitte Haskins & Sells

DELOITTE HASKINS & SELLS

San Jose, California
September 17, 1986

SCHEDULE IV

ATARI CORPORATION

INDEBTEDNESS TO RELATED PARTIES - NOT CURRENT

Name of Person	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
		(in thousands)		
Period Ended				
December 31, 1984:				
Warner Communications, Inc.:				
Obligation due in June 1994 (including accrued interest at 17%)	$24,665(1)	$ 2,097(2)	$ —	$26,762
Year Ended				
December 31, 1985:				
Warner Communications, Inc.:				
Obligation due in June 1994 (including accrued interest at 17%)	$26,762	$ 4,742(2)	—	$31,504
Notes due in August 1991 (interest at 10.5%)	—	10,367(3)	—	10,367

(1) Represents obligation issued for net assets acquired from WCI at July 2, 1984.

(2) Represents accrued interest.

(3) Represents advances made by WCI to satisfy certain liabilities assumed in the WCI transaction.

SCHEDULE VIII

ATARI CORPORATION

VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
		(in thousands)		
Period Ended December 31, 1984:				
Allowance for doubtful accounts	$ 3,521(1)	$ 919	$ 739	$ 3,701
Accrued customer allowances	$39,513(1)	$11,530	$31,071	$19,972
Year Ended December 31, 1985:				
Allowance for doubtful accounts	$ 3,701	$ 1,987	$ 2,984	$ 2,704
Accrued customer allowances	$19,972	$ 4,774	$17,249	$ 7,497

(1) Represents balance at date of acquisition.

SCHEDULE X

ATARI CORPORATION

SUPPLEMENTARY INCOME STATEMENT INFORMATION

Item	Charged to Costs and Expenses	
	Period from May 17, 1984 (inception) to December 31, 1984	Year Ended December 31, 1985
	(in thousands)	
Advertising	$3,627	$3,358

Registration No. 33- 8853

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Rec'd S.E.C.
SEP 18 1986
FEE 37

EXHIBITS
TO
FORM S-1
REGISTRATION STATEMENT

Under
THE SECURITIES ACT OF 1933

ATARI CORPORATION

INDEX TO EXHIBITS

Exhibit Number	Exhibit	Sequentially Numbered Page
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10.9	Industrial Lease Agreement for Warehouse at 390 Carribean Drive, Sunnyvale, California, dated December 17, 1976	52
22	Subsidiaries of Registrant	53
24.1	Consent of Gibson, Dunn & Crutcher (included in Exhibit 5 to this Registration Statement)	
24.2	Consent of Deloitte Haskins & Sells (included as page II-4 to this Registration Statement)	
25	Power of Attorney (included in signature page to this Registration Statement)	

* To be filed by amendment.

Exhibit 1

Proof of September 17, 1986

4,500,000 Shares*

Atari Corporation

Common Stock

UNDERWRITING AGREEMENT

, 1986
New York, New York

PAINEWEBBER INCORPORATED
As Representative of the Underwriters
1285 Avenue of the Americas
New York, New York 10019

Dear Sirs:

Atari Corporation (the "Company") proposes to issue and sell to you and the other underwriters named in Schedule 1 (the "Underwriters"), for whom you are acting as representative (the "Representative"), 4,500,000 authorized but unissued shares (the "Firm Shares") of its common stock, $.01 par value (the "Common Stock"). In addition, the Company and the shareholders of the Company named in Schedule 2 (the "Contingent Selling Shareholders") propose to grant to the Underwriters an option to purchase an aggregate of up to an additional 675,000 shares (the "Option Shares") of such Common Stock. All or part, as the context may require, of the Firm Shares and the Option Shares are called the "Shares."

1. *Sale and Purchase.*

(a) The Company will issue and sell to each Underwriter, and each Underwriter will purchase from the Company, the number of Firm Shares opposite such Underwriter's name in Schedule 1, at the purchase price of $ per share.

(b) The Company and the Contingent Selling Shareholders grant to the Underwriters an option to purchase all or any part of the Option Shares for the same consideration per share as for the Firm Shares. The maximum number of Option Shares to be sold by each Contingent Selling Shareholder is set forth in Schedule 2, and the maximum number of Option Shares to be sold by the Company is the balance of the Option Shares. If fewer than all the Option Shares are purchased, they will be purchased first from the Contingent Selling Shareholders, pro rata in accordance with the maximum number of Option Shares set forth on Schedule 2 opposite the name of each Contingent Selling Shareholder, then from the Company. The number of Option Shares to be purchased by each Underwriter will be the same percentage (adjusted by the Representative to eliminate fractions) of the number of Option Shares being sold as such Underwriter is obligated to purchase of the Firm Shares. Such option may be exercised only to cover over-allotments in the sales of the Firm Shares by the Underwriters and may be exercised in whole or in part, at any time within 30 days after the Effective Date (as defined below), by notice from the Representative to the Company no later than 12:00 noon, New York City time, at least two business days before the Option Shares Closing Date (as defined below) setting forth the number of Option Shares to be purchased and the time and date of such purchase.

(c) The obligations of the Company and the Contingent Selling Shareholders under this Section are several and not joint. The obligations of the Underwriters under this Agreement are several and not joint and are undertaken on the basis of the representations and are subject to the conditions in this Agreement.

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* Plus an option to purchase up to 675,000 additional shares to cover over-allotments.

2. *Payment and Delivery.* Delivery by the Company of the Firm Shares to the Representative for the accounts of the Underwriters, and payment of the purchase price by certified or official bank check or checks payable in New York Clearing House (next-day) funds to the Company for the Firm Shares, will take place at the offices of Cravath, Swaine & Moore, One Chase Manhattan Plaza, New York, New York, at 10:00 a.m., New York City time, on the fifth business day following the Effective Date, or at such time on such other date, not later than 12 business days after the Effective Date, as may be agreed on by the Company and the Representative (the "Firm Shares Closing Date").

To the extent the option with respect to the Option Shares is exercised, delivery of the Option Shares and payment by the Underwriters (in the manner specified above) will take place at the offices specified above for the Firm Shares Closing Date at the time and date (which may be the Firm Shares Closing Date) specified in the notice referred to in Section 1(b). The date (the "Option Shares Closing Date") may not be later than five business days following the exercise of the option. The Firm Shares Closing Date and the Option Shares Closing Date are called the "Closing Dates."

Certificates evidencing the Shares will be in definitive form, registered in such names and be in such denominations as the Representative requests at least three full business days before the Firm Shares Closing Date or, in the case of Option Shares, on the day of notice of exercise of the option as described in Section 1(b) and will be made available to the Representative for checking and packaging, at a place in New York City designated by the Representative, at least one full business day before the relevant Closing Date.

3. *Registration Statement and Prospectus; Public Offering.* The Company has filed with the Securities and Exchange Commission (the "Commission"), pursuant to the Securities Act of 1933 (the "Securities Act") and the published rules and regulations adopted by the Commission under it (the "Rules"), a registration statement, including a preliminary prospectus, relating to the Shares, and such amendments to such registration statement as may have been required to the date of this Agreement. The term "preliminary prospectus" means any preliminary prospectus (as referred to in Rule 430 of the Rules) included at any time as a part of the registration statement. A further amendment (the "Final Amendment") to such registration statement, including a form of final prospectus, necessary to permit such registration statement to become effective has been prepared by the Company and submitted to the Representative and will promptly be filed by the Company with the Commission. The registration statement as amended at the time it becomes effective (the "Effective Date"), including financial statements and all exhibits, is called the "Registration Statement." The term "Prospectus" means the prospectus as first filed with the Commission pursuant to Rule 424(b) of the Rules.

The Company and the Contingent Selling Shareholders understand that the Underwriters propose to make a public offering of the Shares, as described in the Prospectus, as soon after the Effective Date as the Representative deems advisable. The Company and the Contingent Selling Shareholders confirm that the Underwriters and dealers have been authorized to distribute each preliminary prospectus and are authorized to distribute the Prospectus and any amendments or supplements to it.

4. *Representations of the Company; Representations and Agreements of Contingent Selling Shareholders.*

(a) The Company represents to each Underwriter as follows:

(1) On the Effective Date and the date the Prospectus is first filed with the Commission pursuant to Rule 424(b), when any post-effective amendment to the Registration Statement becomes effective or any amendment or supplement to the Prospectus is filed with the Commission and at each Closing Date, the Registration Statement, the Prospectus, and any such amendment or supplement will comply in all material respects with the requirements of the Securities Act and the Rules, and no part of the Registration Statement, the Prospectus or any such amendment or supplement will include any untrue statement of a material fact or omit to state a material fact required to be stated in it or necessary to make the statements in it not misleading; except that this representation does not apply to statements or omissions made in reliance on and in conformity with information relating to any Underwriter furnished in writing to the Company by the

Representative on behalf of such Underwriter expressly for use in the Registration Statement, Prospectus, amendment or supplement.

(2) The Option Shares being sold by the Contingent Selling Shareholders are duly and validly authorized, issued and outstanding, fully paid and nonassessable shares of Common Stock of the Company with no personal liability attached to their ownership. The holders of outstanding shares of capital stock of the Company are not entitled to any preemptive rights to subscribe for the Shares. All holders of securities of the Company having rights to the registration of shares of Common Stock, or other securities, because of the filing of the Registration Statement by the Company have waived such rights or such rights have expired by reason of lapse of time following notification of the Company's intent to file the Registration Statement.

(b) Each Contingent Selling Shareholder represents to and agrees with each Underwriter as follows:

(1) The Contingent Selling Shareholder is familiar with the statements with respect to such Contingent Selling Shareholder under the caption "Principal Shareholders" in the preliminary prospectus and the Prospectus. Such statements do not contain an untrue statement of a material fact or omit to state a material fact necessary to make such statements not misleading. The sale of the Shares by the Contingent Selling Shareholder pursuant to this Agreement is not prompted by any information concerning the Company that is not set forth in the Prospectus. The Contingent Selling Shareholder has no reason to believe that the representations of the Company in this Section are not accurate and is familiar with the Registration Statement and has no knowledge of any material fact, condition or information not disclosed in the Prospectus that has adversely affected or may be reasonably be expected adversely to affect the business of the Company.

(2) The Contingent Selling Shareholder has duly authorized, signed and delivered this Agreement. The Contingent Selling Shareholder now has and on each Closing Date the Contingent Selling Shareholder will have valid title to the Shares then being sold by the Contingent Selling Shareholder to each Underwriter. On delivery of and payment for such Shares as contemplated by this Agreement, each Underwriter will receive valid and marketable title to the Shares purchased by it from the Contingent Selling Shareholder, free and clear of any liens, claims, encumbrances, security interests and preemptive rights, and neither the Underwriters nor any subsequent holder of the Shares will be subject to any other claim of any third party arising by reason of any action by the Contingent Selling Shareholder.

(3) The Contingent Selling Shareholder has not taken and will not take, directly or indirectly, any action designed to or that has constituted or might reasonably be expected to cause or result in, under the Securities Exchange Act of 1934 (the "Exchange Act") or otherwise, stabilization or manipulation of the price of the Shares in order to facilitate the sale or resale of the Shares during the 90-day period after the Effective Date.

(4) Without the prior written consent of the Representative, neither the Contingent Selling Shareholder nor any affiliate of the Contingent Selling Shareholder will offer or sell or announce the sale of any equity securities of the Company within 180 days after the Effective Date, except for any shares disposed of by gift to persons who agree to be bound by this paragraph and except that any Contingent Selling Shareholder may, beginning 90 days after the Effective Date, sell pursuant to Rule 144 under the Securities Act, if available, any Shares subject to the option provided for in Section 1(b) which are not purchased by the Underwriters pursuant to such option. For this purpose, the Contingent Selling Shareholder will not be considered an affiliate of any other Contingent Selling Shareholder.

(5) The Contingent Selling Shareholder has signed and delivered, in the form furnished to you, a Power of Attorney and Custody Agreement with the custodian (the "Custodian") and the attorney-in-fact (the "Attorney-in-Fact") identified in Schedule 3. The Attorney-in-Fact is authorized to sign and deliver this Agreement on behalf of the Contingent Selling Shareholder, to

deliver the Shares to be sold by the Contingent Selling Shareholder, to accept payment for the Shares, and otherwise to act on behalf of the Contingent Selling Shareholder in connection with this Agreement. Certificates in negotiable form for all Shares to be sold have been placed in custody with the Custodian for the purpose of effecting delivery.

(6) The Contingent Selling Shareholder will pay all applicable transfer taxes, if any, involved in the transfer to the Underwriters of the Shares to be purchased by them from such Contingent Selling Shareholder.

5. *Agreements of the Company.*

(a) The Company will promptly file the Final Amendment with the Commission but will not file any other amendment or supplement to the Registration Statement or Prospectus unless a copy has first been submitted to the Representative a reasonable time before its filing and the Representative has not reasonably objected to it within a reasonable time after receiving the copy.

(b) The Company will use its best efforts to cause the Registration Statement to become effective and, as soon as the Company is advised, will advise the Representative (1) when the Registration Statement or any amendment to it has become effective, (2) of the initiation or threatening of any proceedings for, or receipt by the Company of any notice with respect to, the suspension of the qualification of the Shares for sale in any jurisdiction or the issuance of any order by the Commission suspending the effectiveness of the Registration Statement and (3) of receipt by the Company or any representative or attorney of the Company of any other communication from the Commission relating to the Company, the Registration Statement, any preliminary prospectus or the Prospectus or to the transactions contemplated by this Agreement. The Company will make every reasonable effort to prevent the issuance of an order suspending the effectiveness of the Registration Statement and, if any such order is issued, to obtain its lifting as soon as possible.

(c) The Company will deliver to the Representative, without charge, two signed copies of the Registration Statement and of any amendments to it (including all exhibits filed with any such document) and as many conformed copies of the Registration Statement and of any amendments to it (excluding exhibits) as the Representative may reasonably request.

(d) During such period as a prospectus is required by law to be delivered by an Underwriter or a dealer, the Company will deliver, without charge, to the Representative and to Underwriters and dealers, at such office or offices as the Representative may designate, as many copies of the Prospectus as the Representative may reasonably request, and, if any event occurs during such period as a result of which it is necessary to amend or supplement the Prospectus in order to make the statements in it, in the light of the circumstances existing when the Prospectus is delivered to a purchaser, not misleading in any material respect, or if during such period it is necessary to amend or supplement the Prospectus to comply with the Securities Act or Rules, the Company will promptly prepare, submit to the Representative, file with the Commission and deliver, without charge, to the Underwriters and to dealers (whose names and addresses the Representative will furnish to the Company) to whom Shares may have been sold by the Underwriters, and to other dealers on request, amendments or supplements to the Prospectus so that the statements in the Prospectus, as so amended or supplemented, will not, in the light of the circumstances existing when the Prospectus is delivered to a purchaser, be misleading in any material respect and will comply with the Securities Act and the Rules. Delivery by Underwriters of any such amendments or supplements to the Prospectus will not constitute a waiver of any of the conditions in Section 6.

(e) The Company will make generally available to the Company's security holders, as soon as practicable but in no event later than the last day of the 15th full calendar month following the calendar quarter in which the Effective Date falls, an earnings statement satisfying the provisions of Section 11(a) of the Securities Act and Rule 158 of the Rules.

(f) The Company will take such actions as the Representative reasonably designates in order to qualify the Shares for offer and sale under the securities or "blue sky" laws of such jurisdictions as the Representative reasonably designates.

(g) The Company will pay, or reimburse if paid by the Representative, whether or not the transactions contemplated by this Agreement are consummated or this Agreement is terminated, all costs and expenses incident to the performance of the obligations of the Company under this Agreement, including costs and expenses of or relating to (1) the preparation, printing and filing of the Registration Statement and exhibits to it, each preliminary prospectus, the Prospectus, all amendments and supplements to the Registration Statement and the Prospectus, and the printing or other reproduction of this Agreement, (2) the issuance of the Shares and the preparation and delivery of certificates for the Shares, (3) the registration or qualification of the Shares for offer and sale under the securities or "blue sky" laws of the jurisdictions referred to in the foregoing paragraph, including the fees and disbursements of counsel for the Underwriters in that connection, and the preparation and printing of preliminary and supplemental "blue sky" memoranda, (4) the furnishing (including costs of shipping and mailing) to the Underwriters and to dealers of copies of each preliminary prospectus, the Prospectus, and all amendments or supplements to the Prospectus, and of the other documents required by this Section to be so furnished, (5) the filing requirements of the National Association of Securities Dealers, Inc., in connection with its review of the financing, (6) all transfer taxes, if any, with respect to the sale and delivery of the Shares to the Underwriters, (7) the fee for any listing of the Shares on the American Stock Exchange and (8) the transfer agent for the Shares. The Company and the Contingent Selling Shareholders may make separate arrangements for the payment of certain of these expenses, but neither such arrangements nor any other provision of this Agreement will relieve the Company from its obligation to the Representative to pay such expenses if any Contingent Selling Shareholder fails to do so.

(h) Without the prior written consent of the Representative, the Company will not offer, sell or register with the Commission, or announce an offering of, any equity securities of the Company, within 180 days after the Effective Date, except for the Shares, Common Stock sold pursuant to a plan for employees or shareholders in effect on the date of this Agreement and Common Stock issuable on conversion of securities or exercise of warrants or options outstanding on the date of this Agreement.

(i) The Company will use its best efforts to list the Shares on the American Stock Exchange and comply with the rules and regulations of such exchange.

(j) The Company will furnish the Representative copies of all reports on Form SR required by Rule 463 under the Securities Act.

6. *Conditions of the Underwriters' Obligations.* The obligations of the Underwriters to purchase the Shares are subject to the accuracy, on the date of this Agreement and on each Closing Date, of the representations of the Company and the Contingent Selling Shareholders in this Agreement, to the accuracy and completeness of all statements made by the Company or any of its officers or the Contingent Selling Shareholders in any certificate delivered to the Representative or its counsel pursuant to this Agreement, to performance by the Company and the Contingent Selling Shareholders of their obligations under this Agreement and to each of the following additional conditions:

(a) The Registration Statement must become effective by 5:30 p.m., New York City time, on the date of this Agreement or such later date and time as shall be consented to in writing by the Representative.

(b) No order suspending the effectiveness of the Registration Statement may be in effect and no proceedings for such purpose may be pending before or threatened by the Commission, and any requests for additional information on the part of the Commission (to be included in the Registration Statement or Prospectus or otherwise) must be complied with to the reasonable satisfaction of the Representative.

(c) Since the dates as of which information is given in the Registration Statement and Prospectus, (1) there must not have been any material change in the capital stock or long-term debt of the Company and its subsidiaries, (2) there must not have been any material adverse change in the general affairs, prospects, management, business, properties, financial condition or results of operations of the Company and its subsidiaries taken as a whole, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated by the Prospectus, (3) the Company and its subsidiaries must not have sustained any material loss or interference with their business or properties from fire, explosion, earthquake, flood or other calamity, whether or not covered by insurance, or from any labor dispute or any court or legislative or other governmental action, order or decree not described in the Prospectus, and (4) there must not have occurred any event that makes untrue or incorrect in any material respect any statement or information contained in the Prospectus or that is not reflected in the Prospectus but should be reflected in it in order to make the statements or information in it not misleading in any material respect, if, in the judgment of the Representative, any such development referred to in clause (1), (2), (3) or (4) makes it impracticable or inadvisable to consummate the sale and delivery of the Shares by the Underwriters at the initial public offering price.

(d) The Representative must have received on the date of this Agreement a certificate, dated such date, of the chief executive or operating officer and the chief financial or accounting officer of the Company certifying that (1) the signers have carefully examined the Registration Statement, the Prospectus and this Agreement, (2) the representations of the Company in this Agreement are accurate on and as of the date of the Certificate, (3) there has not been any material adverse change in the general affairs, prospects, management, business, properties, financial condition or results of operations of the Company and its subsidiaries taken as a whole, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Prospectus, and (4) to the knowledge of such officers, no actions to delay the effectiveness of the Registration Statement or to prohibit the sale of the Shares have been taken or threatened by the Commission. The Representative must receive on each Closing Date a certificate, dated such Closing Date, of such officers certifying to the effect set forth in (1), (2), and (3) above and that (1) to the knowledge of such officers, no order suspending the effectiveness of the Registration Statement or prohibiting the sale of the Shares has been issued and no proceedings for such purpose are pending before or threatened by the Commission and (2) the Company has performed all agreements that this Agreement requires it to perform by such Closing Date.

(e) The Representative must receive on each Closing Date a certificate, dated such Closing Date, of each Contingent Selling Shareholder certifying (1) that such Contingent Selling Shareholder carefully examined the Registration Statement, the Prospectus and this Agreement and (2) that the representations of the Contingent Selling Shareholder are accurate as of such Closing Date and the Contingent Selling Shareholder has complied with all agreements that this Agreement requires the Contingent Selling Shareholder to perform by such Closing Date.

(f) The Representative must receive on each Closing Date opinions dated such Closing Date substantially in the form of Annex A and Annex A-2 to this Agreement from the counsel identified in Annex A and Annex A-2. In rendering such opinion, such counsel may rely as to the incorporation of the Company and all other matters governed by Nevada law on the opinion of local counsel satisfactory to Cravath, Swaine & Moore.

(g) The Representative must receive on each Closing Date from Cravath, Swaine & Moore, their counsel, an opinion dated such Closing Date with respect to the Company, the Shares, the Registration Statement and Prospectus, this Agreement and the form and sufficiency of all proceedings taken in connection with the sale and delivery of the Shares. Such opinion and proceedings shall be satisfactory in all respects to the Representative. The Company and the Contingent Selling Shareholders must have furnished to such counsel such documents as they may reasonably request for the purpose of enabling them to render such opinion. In rendering such opinion, Cravath, Swaine & Moore may rely as to the

incorporation of the Company and all other matters governed by Nevada law on the opinion of the local counsel retained by the Company as provided in the preceding paragraph.

(h) The Representative must receive by 9:00 a.m. on the date when this Agreement is signed and delivered by the Representative, a signed letter, dated such date, substantially in the form of Annex B to this Agreement from the firm of accountants designated in Annex B. The Representative must also receive on each Closing Date a signed letter from such accountants, dated such Closing Date, confirming on the basis of a review in accordance with the procedures set forth in their earlier letter that nothing has come to their attention during the period from a date not more than five business days before the date of this Agreement, specified in the letter, to a date not more than five business days before such Closing Date that would require any change in their letter referred to in the foregoing sentence.

(i) The Representative must receive before the date of this Agreement, signed letters from each Contingent Selling Shareholder and from certain officers, directors and shareholders of the Company to the effect that they will not, without the prior written consent of the Representative, offer or sell or announce the sale of any equity securities of the Company within 180 days after the Effective Date, except for shares disposed of by gift to persons who agree to be bound by this paragraph and except for sales by Contingent Selling Shareholders under Rule 144 permitted by Section 4(b)(4).

All opinions, letters, evidence and certificates mentioned above or elsewhere in this Agreement will comply with this Agreement only if they are in form and scope satisfactory to counsel for the Representative.

7. *Indemnification.*

(a) The Company will indemnify and hold harmless each Underwriter, the directors, officers, employees and agents of each Underwriter and each person, if any, who controls each Underwriter within the meaning of Section 15 of the Securities Act against any and all losses, claims, damages and liabilities, joint or several (including any investigation, legal and other expenses reasonably incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claim asserted), to which they, or any of them, may become subject under the Securities Act, the Exchange Act or other Federal or state statutory law or regulation, at common law or otherwise insofar as such losses, claims, damages or liabilities arise out of or are based on any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus, the Registration Statement or the Prospectus or any amendment or supplement, or the omission or alleged omission to state in such document a material fact required to be stated in it or necessary to make the statements in it not misleading, provided that the Company will not be liable to the extent that such loss, claim, damage, or liability arises from the sale of the Shares in the public offering to any person by an Underwriter and is based on an untrue statement or omission or alleged untrue statement or omission (1) made in reliance on and in conformity with information furnished in writing to the Company by the Representative on behalf of any Underwriter expressly for use in the document or (2) in a preliminary prospectus if the Prospectus corrects the untrue statement or omission or alleged untrue statement or omission which is the basis of the loss, claim, damage or liability for which indemnification is sought and a copy of the Prospectus was not sent or given to such person at or before the confirmation of the sale to such person in any case where such delivery is required by the Securities Act, unless such failure to deliver the Prospectus was a result of noncompliance by the Company with Section 5(d). This indemnity agreement will be in addition to any liability that the Company might otherwise have.

(b) Each Contingent Selling Shareholder severally agrees to indemnify and hold harmless the Company, each of its directors, each of its officers who signs the Registration Statement, each Underwriter, the directors, officers, employees and agents of each Underwriter and each person, if any, who controls each Underwriter within the meaning of Section 15 of the Securities Act, to the same extent as the foregoing indemnity from the Company to each Underwriter, but only with reference to written information furnished to the Company by or on behalf of such Contingent Selling Shareholder

specifically for use in the preparation of the documents referred to in the foregoing indemnity. This indemnity agreement will be in addition to any liability that any Contingent Selling Shareholder may otherwise have.

(c) Each Underwriter will indemnify and hold harmless the Company, the Contingent Selling Shareholders, each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act, each director of the Company and each officer of the Company who signs the Registration Statement to the same extent as the foregoing indemnity from the Company to each Underwriter, but only insofar as losses, claims, damages or liabilities arise out of or are based on any untrue statement or omission or alleged untrue statement or omission made in or in reliance on and in conformity with information furnished in writing to the Company by the Representative on behalf of such Underwriters expressly for use in preparation of the documents in which the statement or omission is made or alleged to be made. The Company and the Contingent Selling Shareholders acknowledge that the statements with respect to stabilization on the second page of, and the statements under the caption "Underwriting" in, any preliminary prospectus and the Prospectus constitute the only information furnished in writing to the Company by the Representative on behalf of the Underwriters expressly for use in any such document, and the Underwriters confirm that such statements are correct. This indemnity agreement will be in addition to any liability that each Underwriter might otherwise have.

(d) Any party that proposes to assert the right to be indemnified under this Section will, promptly after receipt of notice of commencement of any action against such party in respect of which a claim is to be made against an indemnifying party or parties under this Section, notify each such indemnifying party of the commencement of such action, enclosing a copy of all papers served, but the omission so to notify such indemnifying party will not relieve it from any liability that it may have to any indemnified party otherwise than under this Section. If any such action is brought against any indemnified party and it notifies the indemnifying party of its commencement, the indemnifying party will be entitled to participate in, and, to the extent that it elects by delivering written notice to the indemnified party promptly after receiving notice of the commencement of the action from the indemnified party, jointly with any other indemnifying party similarly notified, to assume the defense of the action, with counsel satisfactory to the indemnified party, and, after notice from the indemnifying party to the indemnified party of its election to assume the defense, the indemnifying party will not be liable to the indemnified party for any legal or other expenses except as provided below and except for the reasonable costs of investigation subsequently incurred by the indemnified party in connection with the defense. The indemnified party will have the right to employ its counsel in any such action, but the fees and expenses of such counsel will be at the expense of such indemnified party unless (1) the employment of counsel by the indemnified party has been authorized in writing by the indemnifying party, (2) the indemnified party has reasonably concluded that there may be legal defenses available to it or other indemnified parties which are different from or in addition to those available to the indemnifying party (in which case the indemnifying party will not have the right to direct the defense of such action on behalf of the indemnified party) or (3) the indemnifying party has not in fact employed counsel to assume the defense of such action within a reasonable time after receiving notice of the commencement of the action, in each of which cases the fees and expenses of counsel will be at the expense of the indemnifying party or parties and all such fees and expenses will be reimbursed promptly as they are incurred. An indemnifying party will not be liable for any settlement of any action or claim effected without its written consent or, in connection with any proceeding or related proceeding in the same jurisdiction, for the fees and expenses of more than one separate counsel for all indemnified parties.

8. *Contribution.* In order to provide for just and equitable contribution in circumstances in which the indemnification provided for in the foregoing Section is applicable in accordance with its terms but for any reason is held to be unavailable from the Company, the Contingent Selling Shareholders or the Underwriters, the Company, the Contingent Selling Shareholders and the Underwriters will contribute to the total losses, claims, damages and liabilities (including any investigation, legal and other expenses reasonably incurred in connection with, and any amount paid in settlement of, any action or any claims asserted, but after deducting any contribution received by the Company from persons other than the Underwriters, such

as persons who control the Company within the meaning of the Securities Act, officers of the Company who signed the Registration Statement and directors of the Company, who may also be liable for contribution) to which the Company or the Contingent Selling Shareholders or any one of them and any one or more of the Underwriters may be subject in such proportion so that the Underwriters are responsible for that portion represented by the percentage that the underwriting discount appearing on the cover of the Prospectus bears to the public offering price appearing on the cover and the Company and the Contingent Selling Shareholders are responsible for the balance; provided that (1) no Underwriter (except as may be provided in the Agreement Among Underwriters) will be responsible for any amount in excess of the underwriting discount applicable to the Shares purchased by such Underwriter and (2) no person found guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) will be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section, any person who controls a party to this Agreement within the meaning of the Securities Act will have the same rights to contribution as that party, and each officer of the Company who signed the Registration Statement and each director of the Company will have the same rights to contribution as the Company, subject in each case to clauses (1) and (2) of this Section. Any party entitled to contribution will, promptly after receipt of notice of commencement of any action against such party in respect of which a claim for contribution may be made under this Section, notify such party or parties from whom contribution may be sought, but the omission so to notify will not relieve the party or parties from whom contribution may be sought from any other obligation it or they may have otherwise than under this Section. No party will be liable for contribution with respect to any action or claim settled without its written consent.

The liability of each Contingent Selling Shareholder in connection with such Contingent Selling Shareholder's representations and agreements in Section 4(b) and under the indemnification provisions in Section 7 and the contribution provisions in this Section will be limited to an amount equal to the proceeds received by such Contingent Selling Shareholder.

9. *Termination.* This Agreement may be terminated by the Representative or by Underwriters who have agreed to purchase at least 50% of the Shares by notifying the Company at any time

(a) before the later of the effectiveness of the Registration Statement and the time when the Shares are first generally offered by the Representative to dealers by letter or telegram,

(b) at or before any Closing Date if, in the judgment of the Representative or in the judgment of such Underwriters payment for and delivery of the Shares is rendered impracticable or inadvisable because (1) trading in the equity securities of the Company is suspended by the Commission, by an exchange that lists the Common Stock, or by the National Association of Securities Dealers Automated Quotation National Market System, (2) additional material governmental restrictions, not in force on the date of this Agreement, have been imposed upon trading in securities generally or minimum or maximum prices have been generally established on the New York Stock Exchange or on the American Stock Exchange, or trading in securities generally has been suspended on any such Exchange or a general banking moratorium has been established by Federal or New York authorities, or (3) any outbreak or material escalation of hostilities or other calamity or crisis occurs the effect of which is such as to make it impracticable to market the Shares, or

(c) at or before any Closing Date, if any of the conditions specified in Section 6 have not been fulfilled when and as required by this Agreement.

If this Agreement is terminated pursuant to any of its provisions, except as otherwise provided, neither the Company nor the Contingent Selling Shareholders will be under any liability to any Underwriter, and no Underwriter will be under any liability to the Company or the Contingent Selling Shareholders, except that (1) if this Agreement is terminated by the Representative or the Underwriters because of any failure or refusal on the part of the Company or the Contingent Selling Shareholders to comply with its terms or because any of the conditions in Section 6 are not satisfied, the Company and the Contingent Selling Shareholders will reimburse the Underwriters for all reasonable out-of-pocket expenses (including the fees and disbursements of their counsel) reasonably incurred by them in connection with the proposed purchase and sale of the Shares and (2) no Underwriter who has failed or refused to purchase the Shares agreed to be

purchased by it under this Agreement, without some reason sufficient to justify cancellation or termination of its obligations under this Agreement, will be relieved of liability to the Company or the Contingent Selling Shareholders or to the other Underwriters for damages occasioned by its default.

10. *Substitution of Underwriters.* If one or more of the Underwriters fails (other than for a reason sufficient to justify the termination of this Agreement) to purchase on any Closing Date the Shares agreed to be purchased on such Closing Date by such Underwriter or Underwriters, the Representative may find one or more substitute underwriters to purchase such Shares or make such other arrangements as the Representative deems advisable or one or more of the remaining Underwriters may agree to purchase such Shares in such proportions as may be approved by the Representative, in each case upon the terms set forth in this Agreement. If no such arrangements have been made within 36 hours after such Closing Date, and

(a) the number of Shares to be purchased by the defaulting Underwriters on such Closing Date does not exceed 10% of the Shares that the Underwriters are obligated to purchase on such Closing Date, each of the nondefaulting Underwriters will be obligated to purchase such Shares on the terms set forth in this Agreement in proportion to their respective obligations under this Agreement, or

(b) the number of Shares to be purchased by the defaulting Underwriters on such Closing Date exceeds 10% of the Shares to be purchased by all the Underwriters on such Closing Date, the Company will be entitled to an additional period of 24 hours within which to find one or more substitute underwriters reasonably satisfactory to the Representative to purchase such Shares on the terms set forth in this Agreement.

In any such case, either the Representative or the Company will have the right to postpone the applicable Closing Date for not more than five business days in order that necessary changes and arrangements (including any necessary amendments or supplements to the Registration Statement or Prospectus) may be effected by the Representative and the Company. If the number of Shares to be purchased on such Closing Date by such defaulting Underwriter or Underwriters exceeds 10% of the Shares that the Underwriters are obligated to purchase on such Closing Date, and none of the nondefaulting Underwriters or the Company makes arrangements pursuant to this Section within the period stated for the purchase of the Shares that the defaulting Underwriters agreed to purchase, this Agreement will terminate without liability on the part of any nondefaulting Underwriter to the Company and without liability on the part of the Company, except in both cases as provided in Sections 5, 7, 8 and 9. This Section will not affect the liability of any defaulting Underwriter to the Company or the nondefaulting Underwriters arising out of such default. A substitute underwriter will become an Underwriter for all purposes of this Agreement.

11. *Miscellaneous.* The reimbursement, indemnification and contribution agreements in Sections 5, 7, 8 and 9 and the representations and agreements of the Company, the Contingent Selling Shareholders and the Underwriters in this Agreement will remain in full force and effect regardless of any termination of this Agreement, any investigation made by or on behalf of any Underwriter, the Company, the Contingent Selling Shareholders or any controlling person and delivery of and payment for the Shares.

This Agreement is for the benefit of the Underwriters, the Company and the Contingent Selling Shareholders and their successors and assigns, and, to the extent expressed in this Agreement, for the benefit of persons controlling any of the Underwriters, the Company, or a Contingent Selling Shareholder, and directors and officers of the Company, and directors, officers, employees and agents of the Underwriters and their respective successors and assigns, and no other person, partnership, association or corporation shall acquire or have any right under or by virtue of this Agreement. The term "successors and assigns" does not include any purchaser of Shares from any Underwriter merely because of such purchase.

All notices and communications under this Agreement will be in writing, effective only on receipt and mailed or delivered, by messenger, facsimile transmission or otherwise, to the Representative at 1285 Avenue of the Americas, New York, New York 10019, to the Company, to its agent for service at such agent's address on the cover of the Registration Statement, and to the Contingent Selling Shareholders, care of their Attorney-in-Fact at the address set forth on Schedule 3.

This Agreement may be signed in multiple counterparts that taken as a whole constitute one agreement.

This Agreement will be governed by and construed in accordance with the laws of the State of New York.

Please confirm that the foregoing correctly sets forth the agreement between us.

Very truly yours,

ATARI CORPORATION

By _____

Title:

Garry Tramiel
Sigmund Hartmann
Gregory A. Pratt
Samuel W.L. Chin
David Harris
Taro Tokai
Thomas Brightman

By _____

Attorney-in-Fact

Confirmed:

PAINEWEBBER INCORPORATED

By _____

Title:

Acting on behalf of themselves and the Underwriters named in Schedule 1.

Schedule 1

Name	Number of Firm Shares to be Purchased
PaineWebber Incorporated	
Total	4,500,000

Schedule 2

Contingent Selling Shareholders*

Name	Number of Option Shares to be Sold
Garry Tramiel	25,000
Sigmund Hartmann	12,500
Gregory A. Pratt	12,500
Samuel W.L. Chin	12,500
David Harris	12,500
Taro Tokai	12,500
Thomas Brigham	5,000
Total	92,500

* The address of each Contingent Selling Shareholder is c/o Atari Corporation, 1196 Borregas Avenue, Sunnyvale, California 94088-3427.

Schedule 3

Custodian and Attorney-in-Fact

Custodian

Name:

Address:

Attorney-in-Fact:

Name:

Address: c/o Atari Corporation
1196 Borregas Avenue
Sunnyvale, California 94088-3427

ANNEX A

Opinion of Gibson, Dunn & Crutcher

1. The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the state indicated in the Prospectus, is duly qualified as a foreign corporation and in good standing in each state of the United States of America in which its ownership or leasing of property requires such qualification and in which the failure to qualify would have a material adverse effect on the business or operations of the Company. The Company has full corporate power and authority to own its properties and conduct its business as described in the Registration Statement.

2. Each "significant" subsidiary of the Company (as defined in Rule 1.02 of the Commission's Regulation S-X) which is incorporated under the laws of a state of the United States has been duly incorporated and is validly existing under the laws of its jurisdiction of incorporation, is duly qualified as a foreign corporation and in good standing in each state of the United States of America in which its ownership or leasing of property requires such qualification and in which the failure to qualify would have a material adverse effect on the business or operations of such subsidiary, and has full power and authority to own its own properties and conduct its business. The Company owns, directly or indirectly, all the outstanding shares of capital stock of each such subsidiary indicated as being owned by it in the Registration Statement, and all such shares are validly issued, fully paid and nonassessable.

3. The authorized equity capitalization of the Company is as described in the Prospectus. The Capital Stock of the Company conforms to the description of it in the Prospectus. Proper corporate proceedings have been taken validly to authorize the outstanding shares of Common Stock and Preferred Stock of the Company (including the Shares being issued). All the outstanding shares of such capital stock (including the Shares, when delivered to and paid for by the Underwriters as provided in the Agreement) have been duly and validly issued and are fully paid and nonassessable. The holders of outstanding shares of capital stock of the Company are not entitled to any preemptive or other similar rights.

4. The Registration Statement has become effective under the Securities Act and, to the best of our knowledge, no stop order suspending the effectiveness of the Registration Statement or suspending or preventing the use of the Prospectus is in effect, and no proceedings for that purpose have been instituted or are pending or contemplated by the Commission.

5. The Registration Statement and the Prospectus (except as to the financial statements contained in them, as to which we express no opinion) comply as to form in all material respects with the requirements of the Securities Act and the Rules.

6. We have participated in drafting and other conferences with representatives of the Company and with the Representative and its counsel, at which conferences the contents of the Registration Statement and the Prospectus and related matters were discussed; we have not independently verified the accuracy, completeness or fairness of the statements contained in the Registration Statement or Prospectus and the limitations inherent in the examination made by us and knowledge available to us and the nature and extent of our participation in such conferences are such that we are unable to assume, and do not assume, any responsibility for the accuracy, completeness or fairness of such statements except as provided in paragraphs 3 and 7 of this opinion; however, based upon our participation in the aforesaid conferences, no facts have come to our attention which lead us to believe that the Registration Statement or the Prospectus at the time the Registration Statement became effective and as of the date of this opinion, contained or contains any untrue statement of a material fact or omitted or omits to state a material fact required to be stated therein, or necessary to make the statements therein not misleading.

7. The information required to be set forth in the Registration Statement in answer to Item 10 (insofar as it relates to us) of Form S-1 is, to the best of our knowledge, accurately set forth in the Registration Statement in all material respects or no response is required with respect to such Item.

8. To the best of our knowledge, there are no franchises, contracts or other documents or any pending or threatened proceedings, legal or otherwise, before any court, governmental body or arbitrator, that are of a character required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement and that are not described or filed as required.

9. The Agreement has been duly authorized, signed and delivered by the Company.

10. Neither the issue and sale by the Company of the Shares sold by the Company as contemplated by the Agreement nor the consummation by the Company of the other transactions contemplated by the Agreement conflicts with, or results in a breach of, the charter or By-laws of the Company or any agreement or instrument known to us to which the Company or any subsidiary is a party or by which the Company or any subsidiary is bound, any law or regulation or, so far as is known to us, any order or regulation of any court, governmental instrumentality or arbitrator.

11. To the best of our knowledge, neither the Company nor any of its significant subsidiaries (as defined above) is currently in breach of, or in default under, any material written agreement or instrument to which it is a party or by which it or its property is bound or affected.

12. To the best of our knowledge, no holder of securities of the Company has rights to the registration of any securities of the Company because of the filing of the Registration Statement.

13. No consent, approval, authorization or order of any court or governmental agency or body is required for the consummation of the transactions contemplated in the Agreement, except such as have been obtained under the Securities Act and such as may be required under state securities or blue sky laws in connection with the purchase and distribution of the Shares by the Underwriters.

14. The Shares are duly authorized for listing, subject to official notice of issuance, on the American Stock Exchange.

Opinion of Leonard I. Schreiber

1. Each Contingent Selling Shareholder has all power and authority necessary to sign, deliver and perform the Agreement. The signing, delivery and performance of the Agreement by the Contingent Selling Shareholders will not conflict with, result in the creation or imposition of any lien or encumbrance upon any of the Shares to be sold by such Contingent Selling Shareholder under, or constitute a default under any agreement, or instrument or any order or regulation of any court, governmental instrumentality or arbitrator.

2. No consent, approval, authorization or order of any court or governmental agency or body is required for the consummation of the transactions contemplated in the Agreement, except such as may be required under state securities or blue sky laws in connection with the purchase and distribution of the Shares by the Underwriters.

3. The delivery by each Contingent Selling Shareholder of the Contingent Selling Shareholder Shares as contemplated by the Agreement will pass valid and marketable title to the Underwriters, free and clear of any liens, claims, encumbrances, security interests and preemptive rights, and will not subject any Underwriter or any subsequent holder of the Shares to any other claim of any third party arising by reason of any action by the Contingent Selling Shareholder.

4. I have reviewed the statements with respect to the Contingent Selling Shareholders under the caption "Principal Shareholders" in the Prospectus and have no reason to believe that such statements contain an untrue statement of a material fact or omit to state a material fact necessary to make such statements not misleading and, to the best of my knowledge, the sale of the shares being sold by the Contingent Selling Shareholders is not prompted by any information concerning the Company which is not set forth in the Prospectus.

5. The Agreement has been duly signed and delivered by or on behalf of the Contingent Selling Shareholders. Each Power of Attorney signed by a Contingent Selling Shareholder has been duly signed and delivered by the Contingent Selling Shareholders and is valid and binding.

6. I have no reason to believe that any "significant" subsidiary of the Company (as defined by Rule 1.02 of the Commission's Regulation S-X) which is incorporated under the laws of a jurisdiction other than a state of the United States is not duly incorporated and validly existing under the laws of its jurisdiction of incorporation or does not have full power and authority to own its own property and conduct its business. Each such subsidiary is duly qualified as a foreign corporation and in good standing in each state of the United States of America in which its ownership or leasing of property requires such qualification and in which the failure to qualify would have a material adverse effect on the business or operations of such subsidiary. The Company owns, directly or indirectly, all the outstanding shares of capital stock of each such subsidiary indicated as being owned by it in the Registration Statement. I have no reason to believe that any such shares are not validly issued, fully paid and nonassessable.

ANNEX B

Accountant's Letter

We have examined the balance sheets of Atari Corporation (the "Company") as of December 31, 1984 and 1985, and June 30, 1986, and the related statements of income and retained earnings, and changes in financial position for the period from inception (May 17, 1984) to December 31, 1984, the year ended December 31, 1985, and the six months ended June 30, 1986. Such financial statements, and our report with respect thereto, are included in the Registration Statement on Form S-1 (Registration No. 33- filed , 1986). The Registration Statement, as amended on , 1986, is herein referred to as the Registration Statement. In connection with the Registration Statement:

1. We are independent certified public accountants with respect to the Company within the meaning of the Securities Act of 1933 (the "Act") and the Securities Exchange Act of 1934, as amended (the "Exchange Act").

2. In our opinion, the financial statements examined by us which are included in the Registration Statement comply as to form in all material respects with the applicable accounting requirements of the Exchange Act and the published rules and regulations thereunder.

3. We have not examined any financial statements of the Company as of any date or for any period subsequent to June 30, 1986; although we have made an examination for the year ended December 31, 1985, the purpose (and therefore the scope) of the examination was to enable us to express our opinion of the consolidated financial statements as of December 31, 1985, and for the year then ended, but not on the financial statements for any interim period within that year. Therefore, we are unable to and do not express any opinion on the unaudited consolidated condensed balance sheet, as of June 30, 1985, and interim unaudited consolidated condensed statements of income and changes in financial position for the six-month period ended June 30, 1985, or on the financial position, results of operations, or changes in financial position as of any date or for any period subsequent to June 30, 1986.

4. For purposes of this letter, we have read the 1986 minutes of meetings of the Stockholders, the Board of Directors, the Executive Committee, and the Audit Committee of the Board of Directors of the Company as set forth in the minute books at , 1986, officials of the Company having advised us that the minutes of all such meetings through , 1986, were set forth therein, and have carried out other procedures to [five business days before the date of this letter] (the "Cut-Off Date"), (our work did not extend to the period from the Cut-Off Date to the date of this letter) as follows:

a. With respect to the six-month period ended June 30, 1985, we have:

i. Read the unaudited consolidated condensed balance sheet as of June 30, 1985, and the unaudited consolidated statements of income and changes in financial position for the six-month period ended June 30, 1985, included in the Registration Statement.

ii. Made inquiries of certain officials of the Company who have responsibility for financial and accounting matters regarding: (1) whether the unaudited consolidated condensed financial statements referred to under 4a(i) above comply in form in all material respects with the applicable accounting requirements of the Exchange Act and the published rules and regulations thereunder, and (2) whether those unaudited consolidated condensed financial statements are fairly presented in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited consolidated financial statements included in the Registration Statement and the Final Prospectus.

b. With respect to the period from July 1, 1986 to [C], 1986, we have:

i. Read the unaudited consolidated balance sheet as of [C], 1986, and the unaudited consolidated statements of income for the [E] months periods ended [C], 1986 and 1985,

furnished us by the Company, officials of the Company having advised us that no such financial statements as of any date or for any period subsequent to [C], 1986, were available; and

ii. Made inquiries of certain officials of the Company who have responsibility for financial and accounting matters regarding whether the unaudited consolidated financial statements referred to under b(i) are stated on a basis substantially consistent with that of the audited consolidated financial statements included in the Registration Statement and the Final Prospectus.

The foregoing procedures do not constitute an examination made in accordance with generally accepted auditing standards. Also, they would not necessarily reveal matters of significance with respect to the comments in the following paragraph. Accordingly, we make no representations regarding the sufficiency of the foregoing procedures for your purposes.

5. Nothing came to our attention as a result of the foregoing procedures, however, that caused us to believe that:

a. (i) The unaudited consolidated condensed financial statements described in 4a(i) included in the Registration Statement and the Final Prospectus, do not comply in form in all material respects with the applicable accounting requirements of the Exchange Act and the related published rules and regulations thereunder; and (ii) the unaudited consolidated condensed financial statements described in 4a(i) are not fairly presented in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited consolidated financial statements included in the Registration Statement and the Final Prospectus; or

b. (i) At [C], 1986, there was any change in the capital stock of the Company or long-term debt of the Company and its consolidated subsidiaries, as compared with the amounts shown on the June 30, 1986 balance sheet included in the Registration Statement, or (ii) for the period from July 1, 1986 to [C], 1986, there were any decreases, as compared with the corresponding period in the preceding year, in revenue or in the total or per-share amounts of income before extraordinary items or of net income; or

c. [If the interim financial statements included in the Registration Statement and Prospectus are supplemented by later income statement information (so called "capsule" information), add: the unaudited amounts of [describe the capsule information and its location] do not agree with the amounts set forth in the unaudited financial statements for the same periods or were not determined on a basis substantially consistent with that of the corresponding amounts in the audited financial statements included in the Registration Statement and the Prospectus; and] [If the capsule information meets the minimum disclosure requirements of APB Opinion No. 28, paragraph 30, the section above should be expanded also to cover "conformity with generally accepted accounting principles"; see paragraph 22(a) of Statement of Auditing Standards No. 49]

6. As mentioned under 4b, Company officials have advised us that no consolidated statements as of any date or for any period subsequent to [C], 1986, are available; accordingly, the procedures carried out by us with respect to changes in the financial statement items after [C], 1986, have, of necessity, been even more limited than those with respect to the periods referred to in 4. We have made inquiries of certain officials of the Company who have responsibility for financial and accounting matters regarding whether (a) there was any change at the Cut-Off Date in the capital stock or long-term debt of the Company as compared with amounts shown on the June 30, 1986, audited consolidated balance sheet included in the Registration Statement or (b) for the period from [D], 1986, to the Cut-Off Date, there were any decreases, as compared with the corresponding period in the preceding year, in revenue or in the total or per-share amounts of income before extraordinary items or of net income. On the basis of these inquiries and our reading of the minutes as described previously herein, nothing came to our attention that caused us to believe that there were any changes or decreases.

7. For the purposes of this letter, we have read the following:

Item	Page in Prospectus	Description

[Here describe information of an accounting, financial or statistical nature (limited to that derived from the general accounting records of the Company) in the Prospectus to be covered. For example, Summary Financial Information, Selected Financial Information and Capitalization should be listed.]

8. Our examination of the financial statements for the periods referred to in the introductory paragraph of this letter comprised audit tests and procedures deemed necessary for the purpose of expressing an opinion on such financial statements taken as a whole. For neither the periods referred to therein nor any other period did we perform audit tests for the purpose of expressing an opinion on individual balances of accounts or summaries of selected information such as described in the preceding paragraph and, accordingly, we express no opinion thereon.

9. However, for the purposes of this letter we have performed the following additional procedures, which we applied as indicated with respect to the items enumerated in paragraph 7 above.

Item in 7	Procedures and Findings

[Describe procedures undertaken to insure information under 7 agrees with accounting records of the Company.]

Exhibit 2.1

The following is the memorandum of agreement relating to the settlement reached among Atari Corp., Jack Tramiel and Atari Holdings, Inc. ("Old Atari") and Old Atari's subsidiaries that are parties hereto and Productions et Editions Cinematographiques Francais S.A.R.L. and Atari International (UK) Inc. (hereinafter, collectively with Old Atari referred to as "Sellers") and Warner Communications Inc. ("WCI"), resolving all issues and outstanding disputes among the parties relating to the sale made pursuant to the Assets Purchase Agreement dated as of July 1, 1984 (the "Assets Purchase Agreement") among Atari Corp. and Sellers, and certain related agreements, documents and instruments, all as in effect on the date hereof and as listed on Schedule A hereto (hereinafter, collectively with the Assets Purchase Agreement referred to as the "Existing Agreements"). Capitalized terms used herein and not otherwise defined herein shall have the respective meanings ascribed to them in the Existing Agreements.

Upon execution hereof, this memorandum of agreement shall constitute a legal, binding and enforceable agreement among the parties.

The parties agree to use their best efforts and to work as expeditiously as practicable to prepare and execute more formal and definitive agreements reflecting the provisions set forth

herein. The parties acknowledge, however, that all material terms of their agreement are set forth herein. Failure, for any reason, to execute, or to agree upon, such definitive agreements shall not affect the binding nature or enforceability of this memorandum of agreement.

Effective upon the execution and delivery of this memorandum of agreement:

1. Old Atari shall retain a 50% interest in the shares of Source Technology acquired by Atari Corp., notwithstanding Section 1.1 of the Assets Purchase Agreement.

2. Promptly after the date hereof, Old Atari shall transfer its remaining inventory of Odd Lot cartridges to Atari Corp.

3. Atari Corp. and Sellers hereby agree to schedules ("Liability Schedules") of Sellers' liabilities relating to the purchase by Atari Corp. ("Old Atari Liabilities") which liabilities are (i) assumed by Atari Corp. or (ii) assumed by Old Atari. The Liability Schedules are attached hereto as Exhibits 1.1 through 1.5 (Atari Corp. responsibilities) and Exhibit 2 (Old Atari responsibilities) and are incorporated herein. Prior to a closing under either Paragraphs 10 through 12 or Paragraphs 13 through 18 below, Atari Corp. and Old Atari shall negotiate in good faith to resolve responsibility for the Old Atari Liabilities listed as open items on Exhibit 3 hereto and incorporated herein ("Open Items Schedule") and such items shall be added to the appropriate Liability Schedules. The Liability Schedules shall be incorporated as exhibits to the

definitive agreements incorporating this settlement. Each of Atari Corp. and Old Atari hereby represents to the other that, as of the date hereof, it has no Knowledge of any Old Atari Liabilities other than those listed in Exhibits 1.1 - 1.5, 2 and 3 hereto. Each of Atari Corp. and Old Atari shall be solely responsible for the payment of liabilities listed on their respective Liability Schedules, regardless of the ultimate amount of such liability (unless a specific limitation thereof is listed on the Liability Schedules). However, if Atari Corp. is required to pay an amount to a specific listed creditor in excess of the amount stated in the abovementioned schedules, any portion of such excess which is not attributed to the consumer electronics and home computer divisions of Old Atari shall be the responsibility of Old Atari.

As to any Old Atari Liability which is not included on the Liability Schedules (an "Unscheduled Claim"), the following criteria shall govern:

(A) If Atari Corp. was on notice of the Unscheduled Claim prior to July 1, 1985, said claim shall be the responsibility of Atari Corp., regardless of whether or not Old Atari was also on such notice.

(B) If Atari Corp. was not on notice of the Unscheduled Claim prior to July 1, 1985, said claim shall be the responsibility of Old Atari.

(C) Notwithstanding (B) above, if the Unscheduled Claim relates to El Paso operations, it shall be the responsibility of Atari Corp. unless and until Atari Corp. shall have paid or

be contractually obligated to pay a total of $3.7 million of El Paso liabilities, in which event said claim or the portion thereof which exceeds the $3.7 million aggregate shall be the responsibility of Old Atari. Such El Paso liabilities as have been identified as of the date hereof are listed in Exhibit 1.2 hereto.

For purposes of subparagraphs (A) and (B) above, Atari Corp. shall be deemed to have been on notice of a claim if any one of the following persons received a written communication (such as invoices, correspondence) with respect to such claim: Jack, Sam or Garry Tramiel, Gregory Pratt, any Atari Corp. attorney or other employee of Atari Corp. or its subsidiaries (including but not limited to Paul Kaye, Steven Kawalick, Steven Ruzak, Kathy Solis and Ann Greenan) in an executive position or in a legal department, accounting, or financial position whose responsibilities included processing or verifying documents relating to financial transactions or obligations.

Commencing on the date hereof, upon settlement or other disposition of any claim listed on the Liability Schedules, the Open Items Schedule and Unscheduled Claims, Atari Corp. or Old Atari (whichever of them shall dispose of the claim) shall obtain from the claimant a full release of Old Atari, Atari Corp. and their respective affiliates, provided that this release requirement shall only apply to claims either (i) in litigation or (ii) settled or disposed of for an amount exceeding $5,000.

Atari Corp. shall indemnify and hold Sellers harmless from any liability listed as an Atari Corp. responsibility on the Liability Schedules and from any Unscheduled Claim determined to be the responsibility of Atari Corp. pursuant to the above criteria, including without limitation, from any such liability which has been settled or otherwise disposed of prior to the date hereof. Sellers shall indemnify and hold Atari Corp. harmless from any liability listed as an Old Atari responsibility on the Liability Schedules and from any Unscheduled Claim determined to b the responsibility of Old Atari pursuant to the above criteria, including, without limitation, from any such liability which has been settled or otherwise disposed of prior to the date hereof.

Promptly after the date hereof, Atari Corp. shall reimburse Old Atari for all payments made by or on behalf of Sellers since July 1, 1985 (and for such earlier payments as are listed as to be reimbursed on the Liability Schedules) for liabilities listed as an Atari Corp. responsibility on the Liability Schedules in the amount set forth as to be reimbursed on said schedules, and Old Atari shall simultaneously make like reimbursement to Atari Corp.. With respect to items listed on the Liability Schedules as to be reimbursed in the future, such reimbursement (in the amount set forth on said schedules) shall be made by Old Atari or Atari Corp. (whichever of them shall be required to make such reimbursement) promptly on notice that such reimbursement is due.

Commencing promptly after the date hereof, Atari Corp., at its expense, shall provide counsel to Sellers in all legal proceedings against Sellers which involve claims listed as an Atari Corp. responsibility on the Liability Schedules or which involve Unscheduled Claims determined to be an Atari Corp. responsibility pursuant to the above criteria. Provided thatsuch counsel is furnished by Atari Corp., any separate representation of Sellers in such proceedings shall be at their own expense. Commencing promptly after the date hereof, Old Atari, at its expense, shall provide counsel to Atari Corp. in all legal proceedings against Atari Corp. which involve claims listed as an Old Atari responsibility on the Liability Schedules or which involve Unscheduled Claims determined to be an Old Atari reponsibility pursuant to the above criteria. Provided that such counsel is furnished to Atari Corp., any separate representation of Atari Corp. in such proceedings shall be at its own expense.

Each of the parties now represented by counsel in any litigation listed in the November 15, 1985 Escrow Agreement shall continue such representation at its own expense.

4. Atari Corp. or AIL Ireland Limited ("AIL") and WCI shall each have the right at any time to sell or lease the Limerick Plant together with equipment and contents at such time therein, if any (the "Plant"), subject to the existing brokerage agreement with Jones Lang Industrial of April, 1986 and to the following terms and conditions. AIL and WCI shall notify Atari Corp. in writing of any bona fide offer received by either of them from any non-affiliated third party for the

purchase or lease of the Plant, including a copy of such offer. Within ten (10) days of receipt of such notice, Atari Corp. shall advise AIL and WCI in writing whether to proceed with such sale or lease. If Atari Corp. elects that AIL and WCI should not proceed with such sale or lease, the following shall occur: (i) Atari Corp. shall promptly pay to AIL and WCI, in cash, the amount of such offer for sale or the present value of the proposed lease; (ii) the amounts due from Atari Corp. pursuant to Paragraph 11(A) below or the notes issued or to be issued by Atari Corp. pursuant to Paragragh 17 below shall be reduced by the amount of such payment; and (iii) in the case of a proposed sale, AIL shall convey to Atari Corp. title to the Plant as specified in Paragraph 12 below.If Atari Corp. elects that AIL and WCI should proceed with such sale or lease, the following shall occur: (i) Atari Corp. shall execute such documents as may be necessary to effectuate such sale or lease, including but not limited to, in the case of a sale, conveyance of any right, title or interest of Atari Corp. in the Plant; (ii) AIL and WCI shall receive the proceeds of such sale or lease; and (iii) the amounts due from Atari Corp. pursuant to Paragraphs 11 (A) below or the notes issued or to be issued by Atari Corp. pursuant to Paragraph 17 below shall be reduced simultaneously with the closing of such sale by the proceeds thereof, net of closing expenses (such as legal fees, recording taxes and commissions)or in the case of a lease, such amounts or notes shall be reduced by the lease payments when received, less commissions and other expenses of the lease.

Atari Corp. shall notify AIL and WCI in writing of any bona fide offer received by Atari Corp. from any non-affiliated third party for the purchase or lease of the Plant, enclosing a copy of such offer. Within ten (10) days of receipt of suchnotice, AIL and WCI shall advise Atari Corp. in writing whether to proceed with such sale or lease. If AIL and WCI elect that Atari Corp. should not proceed with such sale or lease, the following shall occur:(i) the outstanding amounts due from Atari Corp. pursuant to Paragraph 11(A) below or the notes issued or to be issued by Atari Corp. pursuant to Paragraph 17 below shall be reduced by the amount of such offer for sale or the present value of the proposed lease; and (ii) in the case of a proposed sale, Atari Corp. shall convey to AIL and WCI any and all right, title or interest which Atari Corp. has or may have in the Plant and/or to the proceeds of sale thereof. If AIL and WCI determine that the offer received by Atari Corp. is acceptable, the following shall occur: (i) Atari Corp. and AIL and WCI shall proceed with such sale or lease; (ii) AIL and WCI shall receive the proceeds thereof (iii) in the case of a sale, at the closing of thereof, AIL shall deliver title to the Plant as specified in Paragraph 12 below; and (iv)the amounts due from Atari Corp. pursuant to Paragraph 11(A) below or notes issued or to be issued by Atari Corp. pursuant to Paragraph 17 below shall be reduced simultaneously with the closing of such sale by the proceeds thereof, net of closing expenses, or in the case of a lease,

such amounts or notes shall be reduced by the lease payments when received, less commissions and other expenses of the lease.

The provisions of this Paragraph 4 shall no longer apply after (i) a closing under Paragraph 11 (A) below or (ii) after notes issued or to be issued by Atari Corp. pursuant to Paragraph 17 below either (a) all have been paid or (b) the first $15 million of such notes (including accrued interest) has been converted into common stock or the option to so convert has expired and the remaining notes (including all interest thereon) have been paid, all as provided in Paragraph 17 below. In the event that the net proceeds from a sale of the Plant exceed the then outstanding balance (including interest) on the notes issued or to be issued pursuant to Paragraph 17 below, Atari Corp. shall be entitled to receive the amount of such excess.

5. Atari Corp. shall continue to provide Sellers reasonable access to the books and records and financial and legal officers of Atari Corp. with respect to (i) Old Atari Liabilities and litigations relating thereto, including claims listed on the Liability Schedules, the Open Items Schedule, Unscheduled Claims and claims arising out of El Paso operations; (ii) litigations listed on the Schedules to the Escrow Agreement dated November 14, 1985 among Atari Corp., Old Atari and Schreiber & McBride (the "Escrow Agreement"); (iii) other litigations to which Sellers are party, and (iv) so long as

Sellers hold any notes of Atari Corp. or own more than 10% of its outstanding stock, other litigations to which Atari Corp. is party which could have a material adverse effect on Atari Corp.. Sellers shall provide Atari Corp. like access to Sellers' books and records and officers with respect to items (i) and (ii) above and with respect to other litigations to which Atari Corp. is party which relate to the Purchased Assets.

6. The Agreement among Atari Corp., Old Atari and Jack Tramiel (the form of which is attached as Exhibit I to the Assets Purchase Agreement) (the "Securityholders Agreement") is hereby amended as follows: (i) the term "public company" as defined in Section 1.11 thereof, shall also include Atari Corp. from and after the date on which a public offering of common stock of Atari Corp. the net proceeds from which exceed $40,000,000 (a "Public Offering") is closed; and (ii) the term"Initial Offering", as used therein, shall mean a Public Offering as defined in clause (i) of this Paragraph 6.

* * *

The provisions of paragraphs 1 through 6 above shall survive any closing hereunder.

* * *

At a closing under either Paragraphs 10 through 12 or Paragraphs 13 through 18 below:

7. Sellers and WCI shall surrender to Atari Corp. all securities, notes and warrants of Atari Corp. and Atari France S.A. originally issued to Sellers and WCI, and Atari Corp.shall surrender all remaining WCI warrants issued pursuant to the August 22, 1984 agreement among certain of the parties hereto.

Should it be not be feasible, for any reason, for the Atari France S.A. note(s) to be surrendered to Atari Corp., and such note(s) are paid by Atari France S.A. to PECF, Sellers andWCI shall promptly reimburse Atari Corp. for the amount of such payment.

8. The following provisions of the Assets Purchase Agreement shall continue in full force and effect and shall be enforceable in accordance with their respective terms: the preamble (to the extent not inconsistent with the specific provisions of this memorandum of agreement), Sections 6.2, , 6.4 (iii)(but ending the last sentence thereof with the word "hereunder" in the fifteenth line thereof), 6.9, 6.10, 6.11, 6.12, 8 and 10 (but "Shareholder" as defined in 10.1 (iii) shall be limited with respect to "Buyer" as used therein to Jack, Sam and Garry Tramiel and Gregory A. Pratt) and Exhibits A-1 and A-2, H, I (as amended as provided herein), J and K (the "Continuing Exhibits"). In addition, except as specifically limited elsewhere herein, the following other Existing Agreements shall continue in full force and effect and shall be enforceable in accordance with their respective terms: (i) the Escrow Agreement and all letter agreements with respect thereto; (ii) Partial Sale of Fonds de Commerce dated November 13, 1985; (iii) Letter of Intent Concerning Allocation of Costs within Atari International (Italy) Inc. executed on or about March 14, 1986; and (iv) each agreement the forms of which are Continuing Exhibits, provided that (a) with respect to the Guaranty from WCI to Atari Corp (the form of which is attached as Exhibit H to the Assets Purchase Agreement) and the

Indemnity Agreement from Atari Corp. to WCI (the form of whichis attached as Exhibit J to the Assets Purchase Agreement) the underlying obligations covered thereby shall be deemed to be modified to reflect the terms of this memorandum of agreement and the resolution of disputes hereby; and (b) the Securityholders Agreement shall be deemed to be further amended as follows:

(i) The terms "Newco Shares" and "Newco Warrants" as defined in 1.8 and 1.9 of said Agreement shall be deemed to be amended to include either (a) the common shares of Atari Corp. to be issued to Sellers and WCI pursuant to Paragraph 11(B) below or (b) the Convertible Preferred Stock to be issued to Sellers and WCI pursuant to Paragraph 15 below, assuming the conversion into 7.1 million shares of common stock (subject to increase or decrease for events occurring from the date hereof similar to the provisions contained in Section 9 of the Warrant Agreement ("Equity Protection")) and the 7.1 million shares of Atari Corp. common stock (subject to Equity Protection) issuable on conversion of notes to be issued to Sellers and WCI pursuant to Paragraph 17 below.

(ii) Atari Corp. represents to Old Atari that Atari Corp. has, prior to the date hereof, issued a total of not more than 3,200,000 shares of Atari Corp. common stock to employees of Atari Corp. other than to the

Principal Shareholder and his associates (as such term is defined in Section 1.2 of said Agreement). Section 2.5 (iii) shall be deemed to be amended to ratify such transactions and to authorize the future adoption of plans specified in section 2.5 (iii) pursuant to which aggregate grants, under all such plans, of up to a maximum of 1,000,000 additional shares of Atari Corp. common stock, or the equivalent (subject to Equity Protection), may be made to officers, directors or employees of Atari Corp. or its subsidiaries other than to the Principal Shareholder and his associates (as defined in said Agreement).

(iii) Section 2.6 shall be deemed to be amended to except from the restrictions contained therein the sale by Garry Tramiel of up to 50,000 shares of Atari Corp. common stock (subject to Equity Protection) under the "green shoe" provisions of an underwriting agreement containing oversubscription rights in connection with a public offering of Atari Corp. common stock pursuant to Paragraphs 10 through 12 of this memorandum of agreement.

(iv) Section 2.7 shall be deemed to be amended so as to authorize the private offering described in Paragraph 15 below.

(v) Section 3 shall be deemed to be amended to provide (a) that the registration rights afforded under said

section shall apply only to shares of common stock of Atari Corp. and any other securities of Atari Corp. issuable upon the exchange or conversion of such shares or in connection with any reclassification or recapitalization thereof (or the capital stock of any corporation into with which Atari Corp. may be merged or consolidated and which capital stock is issued in exchange for common stock to Atari Corp.); and (b) that the registration rights afforded under said section shall be limited as follows: (1) during the period between six months and twelve months following the closing of an Initial Offering (as defined in Paragraph 6 above), Old Atari, WCI and/or their transferees shall have the right to register such number of shares of Atari Corp. common stock and other securities described in subsection (v)(a) above as Old Atari, WCI and/or their transferees may request, provided that such number of shares not exceed the number which Atari Corp.'s lead underwriter in its Initial Offering advises Old Atari, WCI and/or their transferees that in such underwriter's opinion can be sold without materially adversely affecting the market value of the publicly-held shares; (ii) during the period between twelve and twenty-four months following the

closing of an Initial Offering, Old Atari WCI and/or their transferees shall have the right to register up to 50% of their shares of Atari Corp. common stock and other securities described in subsection (v)(a) above; and (iii) after twenty four months following the closing of an Initial Offering, there shall be no limitations on the number of shares of Atari Corp. common stock and other securities described in subsection (v)(a) above which may be registered.

(vi) Section 3.2 shall be deemed to be amended to clarify that Old Atari and other Registered Securityholders shall not have the Piggyback Rights specified in Section 3.2 if the proposed registration is (a) the initial registration to be filed for Atari Corp. under the Securities Act and the only securities to be registered are a primary issuance by and for the account of Atari Corp. and shares held by employees to be sold under the "green shoe" provisions of an underwriting agreement in connection therewith, or (b) a registration of an employee stock ownership, stock option, stock purchase or other employee incentive plan or arrangement adopted in the ordinary course of business, or (c) a registration of securities to be issued in exchange for securities or assets of,

or in connection with a merger or consolidation with, another corporation.

(vii) Jack Tramiel represents to Old Atari that, prior to the date hereof, Jack Tramiel and the Other Current Shareholders (as defined in said Agreement) have not sold or otherwise disposed of (other than by gift) shares of Atari Corp. common stock to any person other than an affiliate or associate (as such terms are defined in said Agreement) or in a transaction excepted under section 5.5 of said Agreement with the exception of sales of a total of 150,000 shares of Atari Corp. common stock by Jack Tramiel to two individuals. Section 5.1 shall be deemed to be amended to ratify such sales.

(viii) Section 5.5 (iii) shall be deemed to be amended to substitute for the entirety of said section: "to any sales by the Principal Shareholder up to an aggregate of 100,000 shares of Atari Corp. common stock (subject to Equity Protection) in any twelve month period or to any sales by any Other Current Shareholders (as such term is defined in said Agreement) up to an aggregate of 25,000 shares of Atari Corp. common stock (subject to Equity Protection) for each Shareholder in any twelve month period".

Except as otherwise specifically provided elsewhere herein, nothing contained in this paragraph shall affect the sale or

transfer of the Purchased Assets, the assumption of the Assumed Liabilities or the Bill of Sale (the form of which is attached as Exhibit B to the Assets Purchase Agreement) or the Assumption of Liabilities (the form of which is attached as Exhibit C to the Assets Purchase Agreement) which transactions and instruments shall survive except as modified hereby. There shall be no continuing obligations of any party under any of the Existing Agreements (including the Assets Purchase Agreement) except as provided above in this paragraph 8.

9. The parties shall each deliver general releases in standard Blumberg form, releasing all claims except for claims that may arise in the future under the Existing Agreements as they are modified herein or under this memorandum of agreement.

* * *

If a Public Offering shall close on or before August 17,1987, the provisions contained in Paragraphs 10 through 12 below shall also apply:

10. A closing hereunder shall occur simultaneously with the closing of the Public Offering.

11. At the closing, Atari Corp. shall deliver to Sellers and WCI, as they shall designate:

(A) $36,124,741.35 (including interest) plus, if the closing occurs after November 1, 1986, $95,000 per month (prorated daily) from November 1, 1986 to the closing.

Should the closing occur before November 1, 1986, there shall be deducted $95,000 per month (prorated daily) from the closing to November 1, 1986.

(B) 14,200,000 common shares of Atari Corp. (subject to Equity Protection).

12. At the closing, or as soon thereafter as practicable, AIL shall convey to Atari Corp. good and marketable title (except for any liens resulting from Atari Corp. activities) to the Plant, unless there has been a prior disposition of the Plant pursuant to Paragraph 4 above.

* * *

If a Public Offering is not closed by August 17, 1987, the provisions contained in Paragraphs 13 through 18 below shall apply in lieu of Paragraphs 10 through 12 above. It shall be a condition of a closing under Paragraphs 13 through 18 below that Atari Corp. obtain Blue Sky qualifications under section 25116 of the California Securities Law for the issuance of the notes to be issued in Pargraphs 14 and 17 below. Atari Corp. shall use its best efforts to obtain such certificates.

13. A closing hereunder shall occur on August 18, 1987.

14. At the closing, Atari Corp. shall issue to Sellers and WCI, as they shall designate, $46,029,074.67 (including accrued interest) subordinated notes which notes shall mature June 30,1994. Interest shall accrue at the rate of 17.0% per annum, compounded semiannually, from the date of issuance, and shall be partially paid on June 30 and December 31 of each year as follows: December 31, 1987...$2,406,474.91; June 30,1988 and every six months thereafter...$3,255,818.99. Unpaid interest shall be added to principal. The notes shall be redeemable by

Atari Corp. for cash at a sliding scale in the redemption amounts (together with accrued interest thereon) set forth in Exhibit 4.

15. At the closing, Atari Corp. shall issue to Sellers and WCI, as they shall designate, 700,000 shares of Convertible Preferred stock of Atari Corp. The preferred stock shall participate as to dividends and all other distributions as if it were converted into 7.1 million shares of common stock of Atari Corp. (subject to Equity Protection) immediately prior to the record date for such dividend or distribution. The preferred stock shall not be redeemable except by conversion as provided below, or, at the election of Atari Corp., on or after June 30, 1994 any outstanding shares of preferred stock may be redeemed by Atari Corp. at a price of $100 per share. The preferred stock shall have a liquidation preference in the amount of $100 per share. So long as Sellers or any other affiliate of WCI shall hold the preferred stock, Atari Corp. shall not issue any stock of Atari Corp. senior or pari passu to the preferred stock issued to the Sellers.

Sellers shall have the right at any time to convert the preferred stock into 7.1. million shares of common stock of Atari Corp. (subject to Equity Protection). Upon an initial public offering by Atari Corp., or an offering to private investors of $25 million or more of common stock (not including any issuance by Atari Corp. of stock to creditors, suppliers or employees), Atari Corp. shall have the right to

compel conversion of the preferred stock into 7.1 million shares of Atari Corp. common stock (subject to Equity Protection).

16. At the closing, Jack Tramiel shall invest $20 milli in Atari Corp. in cash or in market value of negotiable securities and shall receive a secured Atari Corp. note therefor, maturing August 31, 1991. The note shall be repayable on the earlier of (i) a public or private offering (as described in Paragraph 15 above) or (ii) at such time as all Old Atari Liabilities assumed by Atari Corp. have been paid, except such liabilities as are (a) listed on the Escrow Agreement Schedules 3.1., 3.8A and 3.8B or (b) as to which funds are segregated by Atari Corp. in a manner acceptable to Sellers fully to secure payment; provided, however, that no payment shall be made on such note unless there is a simultaneous pro rata payment on any outstanding notes, including accrued interest thereon, issued by Atari Corp. unde Paragraph 17 below. Interest shall accrue at the rate of 10.5 per annum from the date of issuance of the note. No interest shall be payable on the note unless all interest concurrently or previously due to Sellers since the issuance to them of the notes provided in Paragraph 14 above has been paid.

In lieu of investing cash or negotiable securities, Jack Tramiel may elect to have Atari Corp. obtain a bank loan, personally guaranteed by Jack Tramiel, in the amount of $20

million in cash in satisfaction of the above investment requirement, so long as the bank loan has all of the same payment terms as to interest and principal as are specified above and the interest rate is not greater than 10.5% per annum.

To the extent that the notes issued or to be issued by Atari Corp. pursuant to Paragraph 17 below are reduced by the disposition of the Plant as provided in Paragraph 4 above, the investment required by Jack Tramiel pursuant to this paragraph shall be reduced in a pro rata amount or notes issued to him therefor or a bank loan in lieu thereof shall be repaid in such amount.

If prior to the closing, the notes to be issued to Sellers pursuant to Paragraph 17 below have been fully paid (including all interest thereon) , Jack Tramiel shall not be obligated to make the investment required under this paragraph. If prior to the closing, such notes have been partially paid, the investment by Jack Tramiel required under this paragraph shall be reduced in a pro rata amount.

17. At the closing, Atari Corp. shall issue to Old Atari and WCI, as they shall designate, $28,339,348.25 in secured promissory notes of Atari Corp. maturing August 31, 1991. All such notes shall be secured on an equal and ratable basis, bear the same interest rate and interest payment terms as, and interest thereon and the principal thereof shall be repayable pari passu with, the note issued to Jack Tramiel pursuant to Paragraph 16 above.

The first $15 million of such notes, including accrued interest thereon, shall be convertible at the option of holders to 7.1 million common shares of Atari Corp. (subject to Equity Protection). Within 20 days after notice by Atari Corp. of a proposed initial public or private offering as described in Paragraph 15 above which notice shall set forth the proposed terms of the offering, the holders of such notes shall notify Corp. whether they elect to convert the notes into such common shares, such election to be conditioned upon completion of the offering. If such holders so elect and such offering is not completed for any reason, all notes outstanding prior to such election, including accrued interest thereon, shall be returned to holders and such notes shall be deemed to have been outstanding at all times. If the holders of such notes do not elect to convert the notes into common shares at the aforesaid time, the conversion right will then expire.

At such time as the notes issued by Atari Corp. pursuant to this paragraph have either (i) all been paid, including all interest thereon or (ii) the first $15 million of such notes (including accrued interest) has been converted into common stock or the option to so convert such notes has expired <u>and</u> the remaining notes (including all interest thereon) have been paid, AIL shall convey to Atari Corp. title to the Plant, as specified in Paragraph 12 above.

If, prior to a public offering pursuant to Paragraph 15 above the amount due to Old Atari and WCI pursuant to this

paragraph is less than $15 million, WCI shall have the right to invest the balance up to $15 million and acquire said secured convertible promissory notes up to the time of a public offering. WCI's right to acquire such notes shall expire on August 31, 1991, so long as all notes issued pursuant to this paragraph, including all interest thereon, have been paid or converted on or before that date.

18. Notwithstanding Paragraph 7 above, until completion of a public offering pursuant to Paragraph 15 above (i) the covenants contained in Sections 6.2 and 6.3 of the Debentures shall continue in full force and effect, all as if each of the Debentures were outstanding and continued to be held by the payee thereof (except that 6.3 shall be deemed amended to permit Atari Corp., in accordance with an employee's stock purchase agreement, to repurchase Atari Corp.'s shares from any employee whose employment has been terminated); and (ii) for purposes of the Securityholders Agreement, Sellers shall be deemed to hold, and there shall be deemed to be outstanding, the "Debt Securities" (as such term is defined therein).

* * *

This memorandum of agreement shall be governed and construed in accordance with the laws of the State of New York applicable to agreements made and to be performed entirely within such state.

* * *

This memorandum of agreement may be executed in two or more counterparts, each of which, when executed, shall be deemed an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this memorandum of agreement as of August 29, 1986.

Atari Corp.

By: _____

Atari Holdings, Inc.

By: _____ VP

Warner Communications Inc.

By: _____ VP

Jack Tramiel

_____

ATARI INTERNATIONAL (BELGIUM) INC.
Dissolved 4/10/84 SPC

By _____

PRODUCTIONS ET EDITIONS CINEMATOGRAPHIQUES FRANCAIS S.A.R.L.

By _____

ATARI INTERNATIONAL (ITALY) INC.

By _____

ATARI INTERNATIONAL (UK) INC.

By _____

ATARI INTERNATIONAL (BENELUX) INC.

By _____

ATARI SALES CORP. dissolved 6/28/83 SPC

_____

ATARI INTERNATIONAL (HONG KONG) LTD

BY _____

ATARI IRELAND LTD.

_____

ATARI ELEKTRONIK VERTRIEBS GMBH
merged into ATARI Music GmbH 12/85 SPC

By _____

ATARI CLUBS, INC. dissolved 3/5/86 SPC

_____

SCHEDULE A

EXISTING AGREEMENTS

Assets Purchase Agreement
dated July 1, 1984 ("Assets Purchase Agreement") between Tramel Technology, Ltd. ("TTL") and Atari, Inc. ("Atari") and certain of its subsidiaries and affiliates (the "Selling Subsidiaries"), including Exhibits.

Schedules to Assets Purchase Agreement, initialed by TTL and Atari, including the allocation of purchase price.

Bill of Sale
dated July 1, 1984 executed by Atari and the Selling Subsidiaries.

Assumption of Liabilities
dated July 1, 1984 executed by TTL.

Warrant Agreement
dated July 1, 1984 between TTL and Atari, including exhibits.

Letters by Tramiel
dated July 1, 1984 addressed to Manufacturers Hanover Trust Company, E.F. Hutton Company, Inc., Merrill, Lynch, Pierce, Fenner & Smith and Bank of America National Trust & Savings Association, respectively, regarding the pledge of certain securities in favor of TTL pursuant to the Secured Demand Note.

Exchange Agreement
dated July 1, 1984 by and between Warner Communications Inc. ("WCI") and TTL, including exhibits.

Warrant Agreement
dated July 1, 1984 between WCI and TTL.

Warrant Certificate
of WCI dated as of July 1, 1984 evidencing 1,000,000 Warrants to purchase WCI common stock at $22 per share delivered to TTL.

9% Subordinated Debenture
Due July 1, 1996 of TTL in the principal amount of $25,000,000 issued to WCI.

Securityholders Agreement
dated July 1, 1984 among TTL, Atari and Tramiel.

Guaranty
dated July 1, 1984 by WCI to TTL.

Indemnity
dated July 1, 1984 by TTL in favor of WCI.

Intellectual Property Rights Heads of Agreement
dated July 1, 1984 between Atari and TTL.

Opinion of Paul, Weiss, Rifkind, Wharton & Garrison dated July 1, 1984 addressed to TTL.

Opinion of Schreiber & McBride
dated July 1, 1984 addressed to Atari.

Partial Sale of Fonds de Commerce
dated November 13, 1985

Escrow Agreement
dated November 14, 1985 among Atari Corp., Old Atari and Schreiber & McBride and all letter agreements with respect thereto.

Letter of Intent Concerning Allocation of Costs within Atari International (Italy) Inc., executed on or about March 14, 1986.

LIST OF OMITTED SCHEDULES AND EXHIBITS
TO EXHIBIT 2.1 TO THIS REGISTRATION STATEMENT

Schedule or Exhibit	Description
1.1 to 1.5	Sellers' liabilities assumed by Registrant
2	Sellers' liabilities assumed or retained by Atari Holdings, Inc.
3	Sellers' liabilities the responsibility for which remains to be negotiated between Atari Holdings, Inc. and Registrant
4	Redemption schedule for subordinated notes to be issued if public offering under this Registration Statement not consummated.

Agreement to Furnish Omitted Schedules

Subject to Registrant's right to request confidential treatment pursuant to Rule 406 under the Securities Act of 1933, Registrant agrees to furnish supplementally a copy of any omitted schedule to the Securities and Exchange Commission upon request.

Exhibit 2.2

VT634C

ASSETS PURCHASE AGREEMENT

between

TRAMEL TECHNOLOGY, LTD.

and

ATARI, INC. and
Certain of its Subsidiaries and Affiliates

July 1, 1984

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EXHIBITS:

A - The Subsidiaries

A-1 - Selling Subsidiaries

A-2 - Other Subsidiaries

B - Bill of Sale

C - Form of Assumption of Liabilities

D - Form of Debenture

E - Form of Promissory Note

F - Form of Warrant Agreement

G - Form of Opinion of Counsel to the Seller

H - Form of Guaranty of Seller's Parent

I - Form of Securityholders' Agreement

J - Form of Indemnity of Seller's Parent

K - Form of License Agreement

L - Form of Exchange Agreement

M - Form of Opinion of Counsel to the Buyer

ASSETS PURCHASE AGREEMENT

AGREEMENT, dated July 1, 1984, by and among TRAMEL TECHNOLOGY, LTD., a Nevada corporation (the "Buyer"), ATARI, INC., a Delaware corporation (the "Seller"), certain subsidiaries of the Seller set forth on Exhibit A-1 and Productions et Editions Cinematographiques Francais S.A.R.L. ("PECF") and Atari International (UK) Inc. ("UK"). (Such subsidiaries, together with PECF and UK, are hereinafter collectively referred to sometimes as the "Selling Subsidiaries".)

The Seller and the Selling Subsidiaries have heretofore collectively been engaged primarily in the business of designing, manufacturing and selling home computers and related software, consumer video games and game program cartridges and coin-operated electronic video games. The Buyer wishes to purchase from the Seller and the Selling Subsidiaries, and the Seller and the Selling Subsidiaries wish to sell to the Buyer, all of the assets, properties, rights and business of the Seller and the Selling Subsidiaries, other than (i) cash and all amounts receivable from Warner Communications Inc. ("Seller's Parent"), or direct or indirect subsidiaries thereof, (ii) assets not related to the business described in the preceding sentence, (iii) all assets, properties, rights and business relating to the coin-operated video game business of the Seller and the

Selling Subsidiaries (including, without limitation, coin-op distribution, arcades and amplifone), (iv) all assets, properties, rights and business relating to the telephone and telecommunications business conducted by the Seller and the Selling Subsidiaries under the Atari-tel trade name, (v) all assets, properties, rights and business of the Seller relating to its Littletext division, (vi) any leasehold or other interests in real property of the Seller or any Selling Subsidiary that are not reflected on the Real Estate Schedule (as defined below), and any improvements on such leasehold or other interests, (vii) accounts or notes receivable of the Seller or any Selling Subsidiary from past or present employees of the Seller or any Selling Subsidiary, (viii) stock of the Selling Subsidiaries, (ix) any automobile heretofore provided for the use of an executive officer of the Seller or of any Subsidiary who shall receive his automobile in connection with the termination of his employment by the Seller, (x) all accounts receivable and other rights of the Seller under the agreement between the Seller and Odd Lot Trading Company, Inc. for the sale of discontinued cartridges and all cartridges reasonably identified to such agreement, (xi) all assets and shares of stock owned by the Seller, or by a subsidiary of the Seller, in Atari Far East Limited and Atari Holding Ltd. (other than the shares of Atari Taiwan Manufacturing Corporation),

(xii) the employment of those employees of the Seller or any Selling Subsidiary who are employed in the United States and are parties to individual employment agreements with the Seller or any Selling Subsidiary or Seller's Parent or who are employed outside the United States in senior executive or managerial positions and the related employment agreements with all of such persons and (xiii) all tax refunds and any interest thereon (all of such assets, properties, rights and business so excluded being hereinafter sometimes collectively called the "Excluded Assets"), with all liabilities related to the business acquired (except as otherwise specified in this Agreement), upon the terms and conditions of this Agreement.

Accordingly, the parties agree as follows:

1. Purchased Assets; Assumed Liabilities. The purchase price to be paid by the Buyer for the assets being purchased from the Seller and the Selling Subsidiaries hereunder has been determined by the parties based on the following:

1.1 Purchased Assets. The assets being sold to the Buyer hereunder consist of all of the assets, properties, rights and business of the Seller and of the Selling Subsidiaries, including without limitation all trade receivables whether or not in litigation (except as included above in the Excluded Assets) and shares of Source Technology

and all shares of stock held by the Seller or any Selling Subsidiary in any of the other Subsidiaries of the Seller listed in Exhibit A-2 (the "Other Subsidiaries"; the Selling Subsidiaries and the Other Subsidiaries being hereinafter sometimes collectively called the "Subsidiaries"), other than the Excluded Assets. (All of the assets, properties, rights and business being sold hereunder are hereinafter sometimes collectively called the "Purchased Assets.")

1.2 Assumed Liabilities. The liabilities being assumed by the Buyer hereunder consist of all of the liabilities and obligations of the Seller and the Selling Subsidiaries to the extent existing on the date hereof, other than:

(i) liabilities and obligations arising from litigation involving the Seller or any of the Subsidiaries that is pending or threatened as of the date hereof;

(ii) liabilities with respect to federal, state or foreign income taxes of the Seller or any of the Selling Subsidiaries to the date hereof; and

(iii) liabilities and obligations with respect to accounts payable to Seller's Parent or to direct or indirect subsidiaries of Seller's Parent;

(iv) liabilities with respect to bank indebtedness other than bank indebtedness of Atari Ireland Ltd.; and

(v) liabilities and obligations arising from or relating to the Excluded Assets, including, without limitation all liabilities and obligations of any kind to those employees of Seller and the Subsidiaries referred to in clause (xii) of the introductory paragraph of this Agreement.

(The liabilities assumed by the Buyer pursuant to this Agreement are hereinafter sometimes collectively referred to as the "Assumed Liabilities," and the liabilities described in paragraphs (i) through (iv) above are hereinafter sometimes collectively referred to as the "Excluded Liabilities.")

2. Capitalization of the Buyer. As of the date hereof, the Buyer has a total capitalization of not less than $75,000,000 (exclusive of any capital attributable to the transactions contemplated under this Agreement), which consists of (i) $1,000,000 of equity in the form of one million outstanding shares of Common Stock, par value $1.00 per share of the Buyer (the "Common Stock"), representing cash contributions by the Buyer's shareholders, (ii) $29,000,000 representing the cash proceeds from issuing to Jack Tramiel (the "Principal Shareholder") the same principal amount of non-interest bearing junior subordinated debentures, which shall be automatically converted into an aggregate amount of 29,000,000 shares of Common Stock (the "Convertible Junior Debenture") upon occurrence of the condition expressed therein, and (iii) a secured demand note of the Principal Shareholder in the principal amount of

$45,000,000, received by the Buyer for its issuance to the Principal Shareholder of the same principal amount of its junior subordinated debentures (the "Junior Debenture") each such instrument bearing interest at the same rate. The Convertible Junior Debenture and the Junior Debenture are subordinated to the rights of general creditors of the Buyer, including the rights of the Seller under the Debentures (as defined below), and are in the form of the copies thereof heretofore delivered to the Seller.

The Buyer represents and warrants that (i) all of the holders of its shares, the Convertible Junior Debenture and the Junior Debenture and their respective holdings are accurately set forth on the Buyer's security holders' list, a copy of which has heretofore been delivered to the Seller, and (ii) no event exists or is threatened which constitutes, or which with the passage of time or the giving of notice or both would constitute, a default or breach under the Convertible Junior Debenture or the Junior Debenture or under any agreement to which the Buyer is a party.

3. Sale of Assets; Payment of the Purchase Price.

3.1 Sale and Purchase. The Seller and the Selling Subsidiaries hereby sell, assign, transfer and deliver to the Buyer all of the Purchased Assets. In confirmation of the foregoing sale, assignment and transfer, the Seller and each of the Selling Subsidiaries are concurrently executing and delivering to the Buyer a Bill of Sale in the form of

Exhibit B. As promptly as practical following the execution and delivery of this Agreement, the Seller shall deliver or cause to be delivered to the Buyer duly endorsed stock certificates representing all of the shares of the Other Subsidiaries owned by the Seller or any of the Selling Subsidiaries. The Buyer hereby purchases all of the Purchased Assets from the Seller and the Selling Subsidiaries and assumes and agrees to discharge all of the Assumed Liabilities. In confirmation of the foregoing assumption, the Buyer is concurrently executing and delivering to the Seller an Assumption of Liabilities in the form of Exhibit C.

3.2 Payment of the Purchase Price. In payment of the purchase price, the Buyer is concurrently herewith delivering the following instruments to the Seller, on its behalf and on behalf of the Selling Subsidiaries:

(A) subordinated debentures, dated the date hereof, in the form of Exhibit D (the "Debentures"), in the aggregate principal amount of $75,000,000, the terms and conditions of which shall be subject to change in the manner set forth therein, such that upon the issuance by the Buyer of additional debentures to public or institutional investors in connection with the Initial Offering (as defined in Section 6.1), the terms and conditions of the Debentures shall be the same as the terms and conditions most favorable to any investor in any such additional debentures;

(B) a senior promissory note, dated the date hereof, in the form of Exhibit E (the "Promissory Note"), in the principal amount of $140,000,000; and

(C) transferable warrants, dated the date hereof (the "Warrants"), issuable under the Warrant Agreement in the form of Exhibit F (the "Warrant Agreement"), entitling the Seller to receive 14,300,000 newly-issued shares of Common Stock (subject to adjustment as therein provided) at an exercise price of $2.08 per share (subject to adjustment as therein provided).

3.3 Adjustment to Purchase Price. The parties have agreed that the Seller and the Selling Subsidiaries shall receive increased purchase price payments in an amount equal to the net proceeds (regardless of when received) from the disposition by the Buyer within six months after the date of this Agreement of fixed assets located in or about Sunnyvale, California, and acquired by the Buyer pursuant to this Agreement, up to a maximum amount equal to 50% of the depreciated book value on the books of the Seller of such fixed assets included in the Purchased Assets. Payment, if any, under this paragraph shall be made on a quarterly basis, commencing not later than 20 days after the end of the third month following the date of this Agreement, and shall be accompanied by a certificate of the Buyer's Chief Financial

Officer detailing the sales of such fixed assets and the proceeds therefrom, if any (a "Financial Certificate"). Thereafter, quarterly Financial Certificates shall be provided within 20 days after the end of each three-month period during which any amounts are received from the disposition of fixed assets, which are payable to the Seller hereunder, commencing with the first such period to occur following the end of the third month following the date of this Agreement. Each such quarterly Financial Certificate shall reflect the sales and the amount due to the Seller under this paragraph for such three-month period, which amount, absent manifest error, shall be binding upon the Buyer and the Seller.

3.4 Distribution of Purchase Price. The purchase price shall be allocated and distributed among the Seller and the Selling Subsidiaries in the amounts, and in the manner, set forth in the Allocation Schedule being exchanged between the parties concurrently with execution.

4. Representations and Warranties of the Seller. The Seller represents and warrants to the Buyer as follows:

4.1 Due Incorporation and Qualification. The Seller and each Subsidiary is duly organized, validly existing and in good standing under the laws of its respective jurisdiction of organization or incorporation, and has

the corporate power and lawful authority to own, lease and operate its assets, properties and business and to carry on its business as now conducted. The Seller and each Subsidiary is qualified to transact business and is in good standing in each jurisdiction in which the nature of its business or location of its properties requires such qualification and in which the failure so to qualify could have a material adverse effect on the Seller or such Subsidiary or its assets, properties or business.

4.2 Subsidiaries. Except as set forth in Exhibit A-1 or Exhibit A-2, the Seller is the owner of all of the issued and outstanding stock of each of the Subsidiaries.

4.3 Tax Matters. The Seller and each Subsidiary has filed all required tax returns, including, without limitation, excise tax, sales tax, use tax, gross receipts tax, franchise tax, value-added tax, employment and payroll related tax and property tax returns and has paid or provided for all deficiencies or other assessments of tax, interest or penalties owed by it with respect to such returns.

4.4 Compliance with Laws. The Seller and each Subsidiary has complied with all material federal, state, county, local and foreign laws, ordinances, regulations and orders applicable to it or its business. All

material licenses, permits, orders or approvals of any governmental or regulatory body (collectively the "Permits") of the Seller and each Subsidiary are in full force and effect, no violations are or have been recorded in respect of any material Permit and no proceeding is pending, or to the knowledge of the Seller threatened, to revoke or limit any material Permit, except as set forth on the Claims and Litigation Schedule.

4.5 Authority to Execute and Perform Agreements. Each of the Seller and the Selling Subsidiaries has the full legal right and power and all authority and approval required to enter into, execute and deliver this Agreement and to perform fully its obligations hereunder. This Agreement has been duly executed and delivered by the Seller and the Selling Subsidiaries and (assuming due execution and delivery by the Buyer) constitutes the valid and binding obligation of the Seller and each Selling Subsidiary enforceable in accordance with its terms.

4.6 Agreements. The schedule of agreements (the "Agreements Schedule") heretofore delivered by the Seller to the Buyer sets forth all of the following agreements to which the Seller or a Subsidiary is a party or by or to which it or its assets or properties are bound or subject, other than agreements that relate solely to the Excluded Assets or

other agreements (except for agreements described under clause (i) below, none of which is excluded) under which the obligations of the Seller or such Subsidiary do not exceed $25,000 in any one case or $1,000,000 in the aggregate (i) agreements with any labor union or association representing any employee; (ii) agreements for the sale of video games, publications or other materials, supplies, equipment, merchandise or services (other than routine subscriptions for periodicals); (iii) agreements for the purchase or acquisition of services; (iv) distribution agreements; (v) author agreements, copyright licenses, royalty agreements or similar agreements; (vi) warehousing, representative, management, marketing, sales agency, printing or advertising agreements; (vii) agreements for the sale of any of its assets or properties other than in the ordinary course of business or for the grant to any person of any preferential rights to purchase any of its assets or properties; (viii) joint venture agreements relating to the assets, properties or business of the Seller or a Subsidiary or by or to which the Seller or a Subsidiary or its assets or properties are bound or subject; or (ix) any other material agreement whether or not made in the ordinary course of business (other than those reflected on the Real Estate Schedule or the Employee Benefits Schedule (as those terms are defined

below)). As of the date hereof all of the agreements set forth on the Agreements Schedule or elsewhere referred to in this Agreement are (except as reflected in the appropriate schedule) in full force and effect and the Seller or a Subsidiary has paid in full or reflected as liabilities and obligations in its books and records in accordance with generally accepted accounting principles used by the Seller in preparing its financial statements at December 31, 1983 and March 31, 1984, its liabilities and obligations thereunder, and neither the Seller nor any Subsidiary is in material default under any of them, nor is any other party to any such agreement in material default thereunder, nor does any condition exist which with notice or lapse of time or both would constitute a material default thereunder. Except as separately identified on the Agreements Schedule, neither the Seller nor any Subsidiary is a party to or bound by any agreement included in the Purchased Assets or Assumed Liabilities which either individually or in the aggregate materially and adversely affects the assets, properties or businesses comprising the Purchased Assets, or which was entered into other than in the ordinary course of its business, except for contracts under which the maximum obligation of the Seller does not exceed $25,000 in any one case or $1,000,000 in the aggregate.

4.7 Real Estate. The schedule of real estate (the "Real Estate Schedule") heretofore delivered by the Seller to the Buyer sets forth a list and summary description of (i) all real property owned by the Seller or a Subsidiary included in the Purchased Assets; (ii) all leases, subleases or other agreements under which the Seller or a Subsidiary is lessor or lessee of any real property which is included in the Purchased Assets or Assumed Liabilities; and (iii) all options granted by the Seller or a Subsidiary or contractual obligations on the part of the Seller or a Subsidiary to sell or dispose of any interest in real property which is included in the Purchased Assets or Assumed Liabilities. Such leases, subleases and other agreements are in full force and effect and neither the Seller nor any Subsidiary has received notice of any material default thereunder. The Seller covenants and agrees that in the case of the three properties identified on the Real Estate Schedule as "WCI Properties," the Seller will arrange for the Buyer to rent such properties for the same rental amounts that were in effect prior to amendment of the leases in connection with the sale by Seller's Parent of such properties through and until December 31, 1985, provided that during the period commencing July 1, 1985 and ending December 31, 1985 such space shall be devoted exclusively to the use of the Buyer in the conduct of its business.

4.8 Accounts and Notes Receivable. The Purchased Assets shall include accounts and notes receivable of the Seller and the Subsidiaries, representing bona fide obligations owing to them of not less than $106.5 million (net of reserves) as of June 30, 1984, determined in accordance with generally accepted accounting principles applied consistently (including the calculation of reserves) with the accounting principles and practices used by the Seller in preparing its financial statements at December 31, 1983 and March 31, 1984, and the reserves shall be not less than 54% of the gross receivables at June 30, 1984.

4.9 Inventory Valuation. The net inventory of the Seller and the Subsidiaries is in usable or salable condition in the ordinary course of business. The amount of the net inventory determined as of June 30, 1984 pursuant to the procedures of Section 6.6 shall be not less than $218.8 million.

4.10 Intellectual Property. Except as set forth in the Claims and Litigation Schedule (as defined below), the Seller has no knowledge of any claim that the Seller or a Subsidiary is in violation of any material patents, copyrights or trademarks of any third party necessary to the business acquired by the Buyer pursuant to this Agreement.

4.11 Liens. The Seller or a Subsidiary, as the case may be, has good and marketable title to each of

the assets and properties reflected on the Balance Sheet, free and clear of any lien or other encumbrance, except for (i) liens and encumbrances reflected on the Balance Sheet or the notes thereto or the Agreements Schedule or Real Estate Schedule; (ii) liens or other encumbrances securing taxes, assessments governmental charges or levies, or the claims of materialmen, carriers, landlords and like persons, which are not yet due and payable; or (iii) minor liens or other encumbrances of a character which do not substantially impair the assets or properties of the Seller or a Subsidiary or materially detract from its business.

4.12 Accounts Payable. The Accounts Payable of the Seller and the Subsidiaries that are included in the Assumed Liabilities, shall not exceed $43,000,000 as of June 30, 1984.

4.13 Accrued Liabilities. The accrued liabilities of the Seller and the Subsidiaries, including, without limitation, accrued royalties, warranty claims, service obligations, commissions, severance payments with respect to employment on or prior to the date of this Agreement, bonuses and rebates as of the date of this Agreement, which are included in the Assumed Liabilities, shall not exceed $38 million as of June 30, 1984. In addition the Seller shall accrue a reserve of $9 million for purchase order commitments and a reserve of $16.3 million for non-

accrued royalties as of June 30, 1984. The amounts reserved on the books and records of the Seller and the Subsidiaries, and included in their accrued liabilities, are adequate to cover any Assumed Liabilities with respect to employees as to whom the Buyer is assuming employment obligations for services performed prior to the date of this Agreement and with respect to the termination of Employee Benefit Plans as they relate to services by such employees through June 30, 1984, determined in accordance with generally accepted accounting principles as used by the Seller in preparing its financial statements at December 31, 1983, including, without limitation, liabilities arising from terminations of employees, in accordance with applicable law or otherwise arising under any of the Employee Benefit Plans referred to in Section 4.18.

4.14 Purchase Orders. The aggregate amount of all outstanding purchase order commitments assumed by the Buyer hereunder with respect to materials, supplies, equipment or merchandise does not exceed $85,300,000.

4.15 Fixed Assets. The aggregate amount of fixed assets included with the Purchased Assets as of June 30, 1984, shall be not less than $36.1 million. The amount of such fixed assets shall be determined as follows (i) all fixed assets of Atari Ireland Ltd. and the land and buildings of Atari Taiwan Manufacturing Corporation shall be included at an amount equal to their net depreciated book value as of

June 30, 1984, and (ii) all other fixed assets included in the Purchased Assets shall be included at an amount equal to (A) their net depreciated book value as of June 30, 1984 less $3,500,000, times (B) 50%.

4.16 Other Assets and Other Liabilities. The aggregate amount of other assets (current and non-current) included within the Purchased Assets, as of June 30, 1984 shall be not less than $22 million. The aggregate amount of liabilities other than current liabilities included within the Assumed Liabilities as of June 30, 1984 shall be not more than $27,000,000.

4.17 Actions and Proceedings. Except as set forth in the schedule of claims and litigation (the "Claims and Litigation Schedule") heretofore delivered by the Seller to the Buyer, to the best of the knowledge of the Seller, there are no actions, suits, claims or legal, administrative or arbitration proceedings or investigations pending or threatened against, involving or affecting the Seller or a Subsidiary or any of the Purchased Assets which could be reasonably expected to have a material adverse effect on the Seller or a Subsidiary or any of the Purchased Assets and, to the knowledge of the Seller, there are no outstanding judgments, orders, writs, injunctions or decrees of any court, governmental agency or arbitration tribunal against or involving the Seller or a Subsidiary or any of the Purchased Assets which have had or will have a material adverse effect on the Seller or a Subsidiary or the Purchased Assets.

4.18 Employee Benefit Plans. Except as set forth on the schedule of employee benefit plans (the "Employee Benefits Schedule") heretofore delivered by the Seller to the Buyer, neither the Seller nor any Subsidiary is a party to, nor makes or is required to make employer contributions to, any pension, profit-sharing, retirement, deferred compensation, bonus, stock purchase, severance, hospitalization, medical insurance, life insurance, vacation policy or other employee benefit plan, program or arrangement (other than any informal program or arrangement for specific individual employees) maintained for the benefit of its employees (an "Employee Benefit Plan"). Each Employee Benefit Plan set forth or described on the Employee Benefits Schedule is in full force and effect in accordance with its terms and is in material compliance with all applicable laws. Except as set forth on the Employee Benefits Schedule, the Seller and each Subsidiary has made or provided for all payments due to date with respect to employees of the Seller or such Subsidiary under each Employee Benefit Plan. No Employee Benefit Plan is subject to Title IV of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"); and no Employee Benefit Plan is a multiemployer plan within the meaning of section 3(37) of ERISA or section 414(f) of the Internal Revenue Code of 1954, as amended (the "Code"). To the knowledge of the Seller, the Seller and each Subsidiary has satisfied all material reporting and disclosure requirements

applicable to it under the Code or ERISA, and the Department of Labor and the Internal Revenue Service regulations promulgated thereunder, with respect to the Employee Benefit Plans that are "employee benefit plans" (within the meaning of section 3(3) of ERISA). Neither the Seller nor any Subsidiary, nor, to the knowledge of the Seller, any other "party in interest" or "disqualified person" (within the meaning of section 3(14) of ERISA or section 4975(e)(2) of the Code, respectively) with respect to the Employee Benefit Plans that are "employee benefit plans," within the meaning of Section 3(3) of ERISA, has engaged in any "prohibited transaction," within the meaning of section 406 of ERISA or section 4975 of the Code, which could subject such Employee Benefit Plans, the Buyer, the Seller, a Subsidiary, any trustee, administrator or any other fiduciary of such Employee Benefit Plans, to any penalty or excise tax imposed on prohibited transactions by section 502(i) of ERISA or section 4975 of the Code.

4.19 Insurance. The schedule of insurance policies and claims (the "Insurance Schedule") heretofore delivered by the Seller to the Buyer sets forth all policies or binders of fire, liability, workmen's compensation, vehicular or other insurance held by or on behalf of the Seller or a Subsidiary (specifying the insurer, the policy number or covering note number with respect to binders, and describing each pending claim thereunder of

more than $25,000). Such policies and binders are in full force and effect. Neither the Seller nor any Subsidiary is in material default with respect to any provision contained in any such policy or binder or has failed to give any notice or present any claim under any such policy or binder in due and timely fashion. Except for claims set forth on the Insurance Schedule, there are no outstanding unpaid claims under any such policy or binder. Neither the Seller nor any Subsidiary has received a notice of cancellation or non-renewal of any such policy or binder. The Seller has no knowledge of any inaccuracy in any application for such policies or binders, any failure to pay premiums when due or any similar state of facts which might form the basis for termination of any such insurance.

4.20 No Broker. No broker, finder, agent or similar intermediary has acted for or on behalf of the Seller or a Subsidiary in connection with this Agreement or the transactions contemplated hereby, and no broker, finder, agent or similar intermediary is entitled to any broker's, finder's or similar fee or other commission in connection therewith based on any agreement, arrangement or understanding with the Seller or a Subsidiary or any action taken by the Seller or a Subsidiary. The Seller acknowledges that Lazard Freres & Co. has provided the Seller with financial services in connection with the transactions contemplated under this Agreement and that the Seller is responsible

for any fees of Lazard Freres & Co. with respect to such services.

5. Representations and Warranties of the Buyer. The Buyer represents and warrants to the Seller and to each Subsidiary as follows:

5.1 Due Incorporation. The Buyer is duly organized, validly existing and in good standing under the laws of the State of Nevada and has the corporate power and lawful authority to own its assets and properties and to carry on its business as now conducted. The Buyer has only one authorized class or series of Common Stock, consisting of 50,000,000 authorized shares, par value $1.00 per share. The Buyer has delivered to the Seller a true and complete copy of its Certificate of Incorporation and By-laws to the Seller and no amendments or changes to either have been authorized by any corporate action, except for amendments to (i) change the name of the Buyer to "Atari Corp." and (ii) increase the amount of authorized capital stock to 75,000,000 shares of common stock, par value $1.00 per share.

5.2 Corporate Power of the Buyer. The Buyer has the full legal right and power and all authority and approval required to enter into, execute and deliver this Agreement, the Debentures, the Promissory Note, the Warrant Agreement, the Junior Debenture and the Junior Convertible Debenture, to issue and deliver the Warrants delivered to the

Seller pursuant to Section 3.2 hereof, and to perform fully its obligations under this Agreement, the Debentures, the Promissory Note, the Warrant Agreement, the Junior Debenture and the Junior Convertible Debenture. Each of this Agreement, the Debentures, the Promissory Note, the Warrant Agreement, the Junior Debenture and the Junior Convertible Debenture has been duly executed and delivered and is the valid and binding obligation of the Buyer enforceable in accordance with its terms. The Warrants and all of the Seller's outstanding shares have been validly issued and are fully paid and non-assessable.

5.3 No Broker. No broker, finder, agent or similar intermediary has acted for or on behalf of the Buyer in connection with this Agreement or the transactions contemplated hereby, and no broker, finder, agent or similar intermediary is entitled to any broker's, finder's, or similar fee or other commission in connection therewith based on any agreement, arrangement or understanding with the Buyer or any action taken by the Buyer.

6. Covenants and Agreements. The parties covenant and agree as follows:

6.1 Maintenance of Capitalization. The Buyer shall endeavor to issue through one or more sales to the public or to institutional investors commencing such endeavors as promptly hereafter as reasonably possible, for an aggregate

of additional $110,000,000 or more in cash, shares of its capital stock and/or subordinated debentures on which no principal payments shall be due prior to the tenth anniversary hereof (the sale by the Buyer of such securities for $110,000,000 or more in cash being herein called the "Initial Offering"), and shall not retire or reduce its capitalization (i) except as expressly provided in the instruments referred to in Section 2, in the form heretofore delivered to the Seller or (ii) if its equity (including for such purpose the Junior Debenture or any equally subordinate substitute therefor) would, after such retirement or reduction, be less than $75,000,000.

6.2 Consents. Each of the Buyer and the Seller agrees that if any agreement, including, without limitation, (i) an agreement reflected on the Agreements Schedule and (ii) any lease, sublease or other agreement under which the Seller or a Subsidiary is lessee of real property, may be terminated by one or more other parties to such agreement following the consummation of the transactions contemplated hereunder, unless such other party consents to such transactions or waives the right to cause such termination by virtue of such transactions, it shall use its best efforts to obtain any such consent or waiver.

6.3 Insurance Policies.

(i) The Seller shall cause its insurance policies on or related to the Purchased Assets and the Assumed

Liabilities to include the Buyer and any subsidiaries of the Buyer owning any of the Purchased Assets as additional co-insureds thereunder, as their respective interests may appear, with respect to the Purchased Assets and Assumed Liabilities from the date hereof through such date, not more than 90 days after the date hereof, on which the Buyer shall request the Seller (on not less than ten days' prior notice) to discontinue such coverage. The Seller shall also use its best efforts to cause its medical, health and life insurance policies for the benefit of its and the Subsidiaries' employees to continue to cover such persons (other than those employees who do not become employees of the Buyer as provided in the introductory paragraph of this Agreement) as they become employees of the Buyer as contemplated hereby. The Seller shall not be required to maintain such coverage (if available) through a date more than 90 days after the date hereof or after the Buyer shall request (on not less than ten days' prior notice) discontinuance of such coverage. The Buyer shall reimburse the Seller (or its parent) promptly after the receipt of invoices therefor for the cost of providing all coverage under this paragraph to the Buyer and its subsidiaries and their respective employees for such periods.

(ii) The Buyer shall, so long as requested by the Seller, include the Seller and the Subsidiaries as additional co-insureds, as their respective interests may

appear, under such insurance policies that the Buyer may carry with respect to its business and the business of its predecessors; provided that the Seller shall reimburse the Buyer for its out-of-pocket costs for such additional coverage.

6.4 Relief of Seller from Post Closing Liabilities.

(i) The Buyer acknowledges that certain obligations of the Seller (the "Guaranteed Obligations") that are included in the Assumed Liabilities are guaranteed by the Seller's Parent. The Buyer covenants and agrees to use its best efforts to cause the Seller's Parent to be unconditionally released from any obligation or liability with respect to all such guaranties and the Guaranteed Obligations. Certain of the Guaranteed Obligations and certain other obligations of the Seller that are included in the Assumed Liabilities are secured by bank letters of credit on which the Seller or the Seller's Parent or both are liable to the issuing bank. The Buyer shall, within 90 days after the date hereof, cause the Seller and the Seller's Parent to be released from all liability on such letters of credit or shall procure the issuance of new letters of credit on which the Seller and the Seller's Parent shall have no liability to replace those outstanding. If any amounts shall be drawn against any of the outstanding letters of credit or if the Seller shall be required to pay any amount in connection with any of the Guaranteed Obligations, the Buyer shall

promptly repay such amount to the Seller or the Seller's Parent, as the case may be.

(ii) If authorized by the Buyer, the Seller, any of the Subsidiaries or the Seller's Parent may, but shall not be obligated to, pay any amounts to suppliers or others after the date hereof as an accommodation to the Buyer to assist in the orderly transition of the Seller's business. If the Seller, any Selling Subsidiary or the Seller's Parent make any such payments or if any of them in the ordinary course of business shall have paid any amounts with respect to periods commencing after the date hereof to any of its employees who become employees of the Buyer or its subsidiaries, the Buyer shall reimburse the Seller or the Selling Subsidiary or the Seller's Parent for the full amount of such payment.

(iii) The Seller and the Subsidiaries shall pay all severance obligations (including all amounts payable under Employee Benefit Plans) to their employees who are excluded from the Purchased Assets under the introductory paragraph of this Agreement, even if the Buyer shall provide continued short-term employment to such persons after the date hereof, although the Buyer shall be solely responsible for all obligations to such persons with respect to their employment by the Buyer. The Buyer shall be responsible for carrying out the severance of, and shall pay all severance obligations (including all amounts payable under Employee Benefit

Plans) to, other employees of the Seller and the Subsidiaries, whether or not any such employee shall hereafter perform services for the Buyer or for any Subsidiary the shares of which are purchased hereunder, but all such amounts through June 30, 1984 shall be charged against the reserves therefrom on the books of the Seller and the Subsidiaries and, if such reserves shall be insufficient, the Buyer shall be indemnified against such excess as provided in this Agreement.

6.5 Agreement with Alan Alda. The Seller acknowledges that the Buyer has not assumed any of the Seller's obligations under the existing agreement between the Seller and Alan Alda relating to advertising and promotional activity. The Buyer covenants and agrees that if Alan Alda does not elect to terminate such agreement within six months after the date of this Agreement, the Buyer shall thereafter make annual payments to the Seller of $1 million per annum, commencing on the first day of the seventh month following the date of this Agreement, and thereafter on each succeeding anniversary of such payment date through and until the eighth such anniversary. The Seller acknowledges that it shall remain liable for all of its obligations under such agreement and that the benefits of such agreement shall inure to the Buyer.

6.6 Inventory Determination. As promptly as

practicable following the execution and delivery of this Agreement, the Buyer and the Seller shall cause a physical inventory as of June 30, 1984 to be taken jointly by accounting representatives of the independent accounting firm engaged by each. The total cost to the Seller and the Subsidiaries of all the items reported in such inventory shall then be determined by such accounting firms in accordance with generally accepted accounting principles as used by the Seller in preparing its financial statements at December 31, 1983, except that any reserve for inventory valuation, whether recorded prior to December 31, 1983 or subsequently, shall be excluded in determining cost. In connection with the taking of such physical inventory and the pricing thereof (including an increase in such physical inventory for the amount of anticipated returns, which shall be reflected at their estimated cost) the accountants shall give effect to the generally accepted accounting principles used by the Seller in preparing its financial statements at December 31, 1983 and March 31, 1984.

The difference between the total amount of such inventory as so determined (the "Gross Inventory") and $449 million shall be multiplied by an adjustment factor of 48.73%. If the Gross Inventory shall exceed $449 million, the product of the foregoing calculation shall be added to the amount of inventory stated in Section 4.9 and if the

Gross Inventory shall be less than $449, such product shall be subtracted from the amount of inventory stated in Section 4.9.

Not more than 90 days following the date of this Agreement the Buyer shall deliver to the Seller a joint certificate signed by the accounting representatives of the Buyer and the Seller specifying the amount of the inventory as determined under this Section 6.6, the Gross Inventory and the amount by which the inventory stated in Section 4.9 is to be increased or decreased, as the case may be, and setting forth in reasonable detail the facts upon which such determination is based. Absent manifest error, the information set forth in such joint certificate shall be binding upon the Buyer and the Seller.

Each of the Buyer and the Seller shall pay its own costs with respect to the taking of the inventory and the other services under this Section 6.6.

6.7 Change in Business Practices by the Buyer. The Buyer has advised the Seller that it expects to make substantial changes in the operation of the business acquired hereunder, commencing immediately after the closing on this date. Neither the Seller nor any Selling Subsidiary, as a holder of securities of the Buyer, shall have any claims against the Buyer by reason of any adverse effect such changes in the past policies and practices may have on the Purchased Assets

and Assumed Liabilities, and the Buyer shall have no claims against the Seller or the Selling Subsidiaries by reason of any such effect, this Agreement having been based on the policies and practices of the Seller.

6.8 Expenses of Sale. Each of the Seller and the Buyer agrees that it shall bear its own direct and indirect expenses incurred in connection with the negotiation and preparation of this Agreement and the consummation and performance of the transactions contemplated hereby.

6.9 Consent to Jurisdiction and Service of Process. Any legal action, suit or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby may be instituted in the appropriate state court in the County of New York, State of New York, or in the federal district court for the Southern District of New York, and each party waives any objection which such party may now or hereafter have to the laying of the venue of any such action, suit or proceeding, and irrevocably submits to the jurisdiction of any such court in any such action, suit or proceeding. Any and all service of process and any other notice in any such action, suit or proceeding shall be effective against any party if given by registered or certified mail, return receipt requested, or by any other means of mail which requires a signed receipt, postage

prepaid, mailed to such party as herein provided. If for any reason such service of process by mail is ineffective, then the Buyer shall be deemed to have appointed Schreiber & McBride at its office as set forth in Section 10.3 and the Seller and the Selling Subsidiaries shall be deemed to have appointed Paul, Weiss, Rifkind, Wharton & Garrison, at its office as set forth in Section 10.3, or at such other address in New York, New York, as such agent shall hereafter furnish to the other party, as such party's authorized agent to accept and acknowledge on such party's behalf service of any and all process which may be served in any such action, suit or proceeding. A party may at any time hereafter, by notice to the other party, appoint a new agent for process under this Agreement who has an office in the Borough of Manhattan. Nothing herein contained shall be deemed to affect the right of any party to serve process in any manner permitted by law or to commence legal proceedings or otherwise proceed against any other party in any jurisdiction other than New York.

6.10 Further Assurances. Each of the parties shall execute such documents and other papers and perform such further acts as may be reasonably required or desirable to carry out the provisions hereof and the transactions contemplated hereby. Without limiting the foregoing, the

parties acknowledge that many formal instruments of transfer in form acceptable for filing, recording or registering the sale hereunder and the transfer of title to specific properties included in the Purchased Assets remain to be prepared, executed and filed. The parties undertake to complete such documentation as expeditiously as reasonably possible so as fully to effect and record the sale hereunder. In particular, the parties shall hereafter use their best efforts to obtain and shall take no actions inconsistent with obtaining, the consent of the lending banks, applicable agencies and the Government of Ireland to the transfer to the Buyer (or a subsidiary of Buyer) and the continuation of the agreements currently existing between such persons and the Seller and its subsidiary, Atari Ireland Ltd., as part of the transfers contemplated under this Agreement.

6.11 Access to Books and Records. The Seller and each Selling Subsidiary shall maintain ownership of its books and records, which shall be Excluded Assets hereunder. All or part of such books and records may be maintained in offices acquired by the Buyer under this Agreement for up to 90 days after the date of this Agreement, at the Seller's election. The Buyer shall provide the Seller with access to such books and records while they remain in the Buyer's offices. The Seller shall make such books and records

available to the Buyer upon request for inspection or for any other reasonable purpose after their removal from the Buyer's offices. Each party further agrees to make its personnel reasonably available to the other as required for the preparation of financial statements to and as of the date hereof and for the preparation of federal, state and foreign income and other tax returns relating to the Seller and the Subsidiaries and for services in connection with tax reporting requirements, tax audits, the resolution of tax disputes and litigation regarding tax matters relating to periods through the end of the current fiscal years of the Seller and the Subsidiaries and the Buyer.

6.12 License Rights. To the extent that certain licensing arrangements under which the Seller or any Subsidiary has heretofore been entitled to use patents, copyrights, trademarks, know-how or other intellectual or industrial property rights of third parties in its business may not be assigned or transferred without the consent of the licensors, the Seller hereby commits to use its best efforts to obtain such consents. If the Seller is unable to obtain the consent of any licensor, such license shall not be deemed to have been transferred as part of the Purchased Assets and the Seller shall continue to be liable as a licensee under the licensing agreement, provided that the

Seller shall make available to the Buyer all of the benefits arising out of such licensing agreement and further provided that the Buyer shall be responsible for all costs relating to the licensing agreement and shall reimburse the Seller promptly for any costs actually incurred by the Seller in connection with such licensing agreement. If notwithstanding the best efforts of the Seller, a licensor cancels or terminates a license agreement as a result of the transactions contemplated under this Agreement, there shall be no adjustment to the value of any of the Purchased Assets and the Seller shall not have any obligation or liability to the Buyer as a result of such cancellation or termination, except to the extent set forth in Section 9.1(vii) of this Agreement.

7. Other Documents and Agreements. Concurrently with the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby, the following other documents shall be delivered, or agreements executed, as the case may be:

7.1 Opinion of Counsel to the Seller. The Buyer shall receive the favorable opinion of Paul, Weiss, Rifkind, Wharton & Garrison, counsel to the Seller, dated the date hereof, addressed to the Buyer, in the form of Exhibit G.

7.2 Guaranty of Seller's Parent. The Buyer shall receive a guaranty in the form of Exhibit H by the Seller's Parent of the performance of all obligations of the Seller to the Buyer hereunder.

7.3 Securityholders' Agreement. The Buyer, the Seller and the Principal Shareholder shall have entered into an agreement in the form of Exhibit I.

7.4 Indemnity of Seller's Parent. The Buyer shall deliver to the Seller's Parent an indemnity agreement in the form of Exhibit J, relating to the Guaranteed Obligations.

7.5 Licensing Agreement. The Buyer and the Seller shall have entered into a reciprocal licensing agreement in the form of Exhibit K, relating to (i) the use by the Buyer of the Seller's name in the conduct of the Buyer's business and (ii) the licensing of certain video games.

7.6 Sale by Seller's Parent of Warrants to Buyer. The Buyer and the Seller's Parent shall have entered into and executed an exchange agreement for the sale by the Seller's Parent of warrants to buy 1,000,000 shares of Common Stock of Seller's Parent in exchange for the issuance by the Buyer of $25,000,000 of subordinated debentures, in the form of Exhibit L.

7.7 Opinion of Counsel to the Buyer. The Seller shall receive the favorable opinion of Schreiber &

McBride, counsel to the Buyer, dated the date hereof, addressed to the Seller, in the form of Exhibit M.

8. Survival of Representations and Warranties of the Seller. Each of the Buyer and the Seller has the right to rely upon the representations, warranties, covenants and agreements of the other contained in this Agreement in connection with the transactions contemplated by this Agreement. All such representations and warranties shall survive the execution and delivery hereof, and shall thereafter terminate and expire with respect to any theretofore unasserted claim on December 31, 1985.

9. Indemnification.

9.1 Obligation of the Seller to Indemnify the Buyer. Subject to the limitations contained in Section 8 and to the provisions of this ection 9, the Seller shall indemnify, defend and hold harmless the Buyer and any of its affiliates and assigns, on an after-tax, fully grossed up basis, from and against any losses, liabilities, damages or deficiencies (including interest, penalties and reasonable attorneys' fees and expenses) ("Losses") actually incurred or suffered by the Buyer or any of its affiliates or assigns arising out of or due to:

(i) a breach of any representation, warranty, covenant or agreement of the Seller or a Subsidiary

contained in this Agreement or in any Exhibit or Schedule hereto;

(ii) any liability or obligation of the Seller or any Subsidiary not assumed by the Buyer pursuant to this Agreement or in any Exhibit or Schedule hereto;

(iii) any legal, administrative, arbitration or other proceedings pending or threatened against the Seller or any Subsidiary at the date hereof or that are hereafter commenced and relate to events that occurred prior to the sale hereunder;

(iv) federal, state, local or foreign income taxes related to the operations of Seller or any of the Subsidiaries through the date hereof;

(v) any default by the Seller or a Subsidiary under an Employee Benefit Plan;

(vi) noncompliance by the Seller and the Subsidiaries with any bulk sales or similar law; and

(vii) any liability or obligation to any third party to any contract or agreement to which the Seller or any Subsidiary is a party resulting from the failure of the Seller or the Subsidiary to obtain any required consent of such third party to the assignment of such contract or agreement to the Buyer pursuant to this Agreement; provided

that the Seller and the Subsidiaries shall have no liability or obligation to the Buyer for any other damages that the Buyer may suffer solely because of the termination of any such agreement by any such third party on such grounds.

9.2 Obligation of the Buyer to Indemnify the Seller. The Buyer shall indemnify, defend and hold harmless the Seller, any of its affiliates or assigns, on an after-tax, fully grossed up basis, from and against any Losses actually incurred or suffered by the Seller or any of its affiliates or assigns arising out of or due to (i) a breach of any representation, warranty, covenant or agreement of the Buyer contained in this Agreement or any Exhibit or Schedule hereto; and (ii) any liability or obligation assumed by the Buyer pursuant to this Agreement or in any Exhibit or Schedule hereto.

9.3 Notice and Opportunity to Defend. If any party (the "Indemnitee") receives notice of any claim or other commencement of any action or proceeding (an "Asserted Liability") with respect to which any other party (or parties) is obligated to provide indemnification (the "Indemnifying Party") pursuant to Section 9.1 or 9.2, the Indemnitee shall promptly give the Indemnifying Party notice thereof. Such notice shall describe the Asserted Liability in reasonable detail, and shall indicate the amount (estimated if necessary) of the Loss that has been or may be

sustained by the Indemnitee. Such notice shall be a condition precedent to any liability of the Indemnifying Party under the provisions for indemnification contained in this Agreement. The Indemnifying Party may elect to compromise or defend, at such Indemnifying Party's own expense and by such Indemnifying Party's own counsel, any Asserted Liability. If the Indemnifying Party elects to compromise or defend such Asserted Liability, it shall within 30 days (or sooner, if the nature of the Asserted Liability so requires) notify the Indemnitee of its intent to do so, and the Indemnitee shall cooperate, at the expense of the Indemnifying Party, in the compromise of, or defense against, such Asserted Liability. If the Indemnifying Party elects not to compromise or defend the Asserted Liability, or fails to notify the Indemnitee of its election as herein provided, the Indemnitee may pay, compromise or defend such Asserted Liability. Notwithstanding the foregoing, neither the Indemnifying Party nor the Indemnitee may settle or compromise any claim over the objection of the other, provided, however, that consent to settlement or compromise shall not be unreasonably withheld. In any event, the Indemnitee and the Indemnifying Party may participate, at their own expense, in the defense of such Asserted Liability. If the Indemnifying Party chooses to defend any claim, the Indemnitee

shall make available to the Indemnifying Party any books, records or other documents within its control that are necessary or appropriate for such defense.

9.4 Limitations on and Manner of Indemnification. Anything in this Agreement to the contrary notwithstanding:

(i) no indemnification shall be due to the Buyer pursuant to Sections 9.1(i) or 9.1(ii) until the aggregate value of the amounts that the Buyer would otherwise be entitled to receive as indemnification under such Sections, before consideration of any tax effects, would exceed $500,000, at which time the Buyer shall be entitled to receive such excess and any subsequent indemnity payments in full;

(ii) if the amount by which the sum of the assets set forth in Sections 4.8, 4.9 (as adjusted pursuant to Section 6.6), 4.15 and 4.16 exceeds the sum of the liabilities set forth in Sections 4.12, 4.13 and 4.16, by $250 million or more, then the Seller shall not be in breach of any of its representations and warranties related to the amount of assets or liabilities hereunder. If such difference is less than $250 million (the "Deficiency"), the Seller shall be in breach and shall satisfy and remedy such breach as provided below. The Deficiency shall be multiplied by an

adjustment factor of .95 and the principal amounts of the Promissory Note and the Debentures shall be reduced in an aggregate amount equal to the product of such computation, allocated 52% to the principal amount of the Promissory Note and 48% to the principal amount of the Debentures. The Seller shall cause the Promissory Note and the Debentures (or other debentures substantially identical thereto) to be delivered to the Buyer for cancellation and the Buyer shall forthwith issue new securities in identical form to those surrendered except for the reduction in principal amount in accordance with this paragraph;

(iii) unless and until thereafter cured, the Indemnifying Party shall not be required to make any indemnity payment to the Indemnitee at any time when the Indemnitee is in breach of any of its material covenants to the Indemnifying Party under this Agreement or if Indemnitee's failure to perform any one or more of its covenants under this Agreement shall have contributed materially to the incurrence or the amount of such Loss; and

(iv) the amount of the Indemnitee's Losses shall be determined after giving effect to any tax benefits realized or to be realized by the Indemnitee in connection therewith.

10. Miscellaneous.

10.1 Certain Definitions. As used in this Agreement, the following terms have the following meanings unless the context otherwise requires:

(i) "affiliate" with respect to any person, means and includes any person controlling, controlled by or under common control with such person.

(ii) "document or other papers" means and includes any document, agreement, instrument, certificate, notice, consent, affidavit, letter, telegram, telex, statement, schedule (including any Schedule to this Agreement), exhibit (including any Exhibit to this Agreement) or any other paper whatsoever.

(iii) "knowledge" means, with respect to the Buyer or Seller, the actual knowledge of any officer, director or shareholder of such person.

(iv) "lien or other encumbrance" means and includes any lien, pledge, mortgage, security interest, claim, lease, charge, option, right of first refusal, easement or any other encumbrance whatsoever.

(v) "person" means any individual, corporation, partnership, firm, joint venture, association, joint-stock company, trust, unincorporated organization or other entity.

(vi) "property" means real, personal or mixed property.

10.2 Publicity. No publicity release or announcement concerning this Agreement or the transactions contemplated hereby shall be issued without advance approval of the form and substance thereof by the Seller and the Buyer, except as such announcement may be required under applicable securities laws and regulations, in which event the Seller or the Buyer, as the case may be, shall notify the other before any announcement is made.

10.3 Notices. Any notice or other communication required or which may be given hereunder shall be in writing and shall be delivered personally, telegraphed or postage prepaid, and shall be deemed given when so delivered personally, telegraphed or telexed, or if mailed, two days after the date of mailing as follows:

(i) if to Buyer, to:

Tramel Technology, Ltd.
1265 Borregas
Sunnyvale, California 94789

Attention: Sam Tramiel, President

with a copy to:

Schreiber & McBride
30 Park Avenue
New York, New York 10016

Attention: Leonard I. Schreiber, Esq.

(ii) if to Seller, to:

Atari, Inc.
c/o Warner Communications Inc.
75 Rockefeller Plaza
New York, New York 10021

Attention: General Counsel

with a copy to:

Paul, Weiss, Rifkind, Wharton & Garrison
345 Park Avenue
New York, New York 10154

Attention: Peter R. Haje, Esq.

10.4 Entire Agreement. This Agreement (including the Exhibits and Schedules hereto) contains the entire agreement among the parties with respect to the purchase of the Purchased Assets and related transactions and supersedes all prior agreements, written or oral, with respect thereto.

10.5 Waivers and Amendments. This Agreement may be amended, modified, superseded, cancelled, renewed or extended, and the terms and conditions hereof may be waived only by a written instrument signed by the parties or, in the case of a waiver, the party waiving compliance. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof. No waiver on the part of any party of any right, power or privilege hereunder, nor any single or partial exercise of any right, power or privilege hereunder, shall preclude any other or further exercise thereof or the exercise of any

other right, power or privilege hereunder. The rights and remedies herein provided are cumulative and are not exclusive of any rights or remedies which any party may otherwise have at law or in equity. The rights and remedies of any party arising out of or otherwise in respect of any inaccuracy in or breach of any representation, warranty, covenant or agreement contained in this Agreement shall in no way be limited by the fact that the act, omission, occurrence or other state of facts upon which any claim of any such inaccuracy or breach is based may also be the subject matter of any other representation, warranty, covenant or agreement contained in this Agreement (or in any other agreement between the parties) as to which there is no inaccuracy or breach.

10.6 Governing Law. This Agreement shall be governed and construed in accordance with the laws of the State of New York applicable to agreements made and to be performed entirely within such State.

10.7 No Assignment. This Agreement is not assignable except by operation of law.

10.8 Variations in Pronouns. All pronouns and any variations thereof refer to the masculine, feminine or neuter, singular or plural, as the identity of the person or persons may require.

10.9 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

10.10 Exhibits and Schedules. The Exhibits and Schedules to this Agreement are hereby made a part of this Agreement as if set forth in full herein.

10.11 Headings. The headings in this Agreement and in the Table of Contents are intended solely for convenience of reference and shall be given no effect in the interpretation of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date first above written.

TRAMEL TECHNOLOGY, LTD.

By _____

ATARI, INC.

By _____

SELLING SUBSIDIARIES

ATARI INTERNATIONAL (BELGIUM) INC.

By _____

PRODUCTIONS ET EDITIONS CINEMATOGRAPHIQUES FRANCAIS S.A.R.L.

By _____

ATARI INTERNATIONAL (ITALY) INC.

By _____

ATARI INTERNATIONAL (UK), INC.

By _____

ATARI INTERNATIONAL (BENELUX) INC.

By _____

ATARI SALES CORP.

By _____

ATARI INTERNATIONAL (HONG KONG) LTD.

By _____

ATARI IRELAND LTD.

By _____

ATARI ELEKTRONIK VERTRIEBS GMBH

By _____

ATARI CLUBS, INC.

By _____

LIST OF OMITTED SCHEDULES AND EXHIBITS
TO EXHIBIT 2.2 TO THIS REGISTRATION STATEMENT

Schedule or Exhibit	Description
A-1	Subsidiaries of Atari, Inc., Atari Holding Ltd., and Atari Far East Ltd. selling assets to Registrant
A-2	Other subsidiaries of Atari, Inc. or any Selling Subsidiary whose capital stock was sold to Registrant
B	Form of Bill of Sale evidencing sale of assets to Registrant
C	Form of Assumption of Liabilities by Registrant
D	Form of Debenture by Registrant to Atari, Inc.
E	Form of Promissory Note by Registrant to Atari, Inc.
F	Form of Warrant Agreement by Registrant to Atari, Inc.
G	Form of Opinion of Counsel to Seller
H	Form of Guaranty of Warner Communications, Inc.
J	Form of Registrant's Indemnity of Warner Communications Inc. for certain liabilities assumed by Registrant
L	Form of Exchange Agreement for sale by Warner Communications Inc of Warrants to purchase shares of its stock for subordinated debentures of Registrant
M	Form of Opinion of Counsel to Registrant

Allocation Schedule	Allocation of purchase price among selling entities
Agreements Schedule	Material agreements of Atari, Inc. or any subsidiary
Real Estate Schedule	Real property owned or leased by Atari, Inc. or any subsidiary thereof and included in assets or liabilities acquired by Registrant
Claims and Litigation Schedule	Claims and litigation pending or threatened against Atari, Inc., any subsidiary thereof or the assets acquired
Employee Benefits Schedule	Employee benefit plans of Atari, Inc. and any subsidiary thereof
Insurance Schedule	Insurance policies of Atari, Inc. or any subsidiary thereof

Agreement to Furnish Omitted Schedules

Subject to Registrant's right to request confidential treatment pursuant to Rule 406 under the Securities Act of 1933, Registrant agrees to furnish supplementally a copy of any omitted schedule to the Securities and Exchange Commission upon request.

Exhibit 2.3

AGREEMENT

among

TRAMEL TECHNOLOGY, LTD.

ATARI, INC.

and

JACK TRAMIEL

July 1, 1984

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Exhibits:

Exhibit A - List of Current Securityholders of Newco (Preamble)

Exhibit B - Certificate of Incorporation of Newco (Section 2.1)

Exhibit C - By-laws of Newco (Section 2.2)

AGREEMENT

This Agreement is entered into as of this 1st day of July, 1984, among TRAMEL TECHNOLOGY, LTD., a Nevada corporation ("Newco"), JACK TRAMIEL, the holder of 250,000 outstanding shares of common stock of Newco and $29 million principal amount of junior convertible debentures of Newco (the "Principal Shareholder"), and ATARI, INC., a Delaware corporation ("Oldco").

Oldco and the Principal Shareholder are sometimes hereinafter collectively called the "Securityholders" and individually a "Securityholder".

Pursuant to an Assets Purchase Agreement, dated the date hereof, between Newco and Oldco and subsidiaries of Oldco (the "Assets Purchase Agreement"), Oldco or certain subsidiaries or affiliates has today acquired (i) warrants to purchase 14,300,000 shares of Common Stock, par value $1.00 a share, of Newco ("Newco Common Stock"); (ii) $75,000,000 principal amount of 9% Subordinated Debentures due 1996 of Newco; (such Subordinated Debentures and any debt securities for which such Debentures are exchanged or into which such Debentures are converted pursuant to the terms thereof being herein called the "Debentures") and (iii) $140,000,000 principal amount of Senior Notes (the "Notes"; the Notes and the Debentures being collectively referred to herein as the "Debt Securities").

The Assets Purchase Agreement contemplates that Newco will endeavor through one or more sales to public or institutional investors or both to raise an aggregate of an additional $110,000,000 of Newco securities, consisting of Newco subordinated debentures and/or Newco Common Stock.

In addition to the Newco securities issued to Oldco or certain subsidiaries or affiliates, the only securities that Newco currently has outstanding or is obligated or committed to issue are: (i) 1,000,000 Shares of Newco Common Stock, all of which are outstanding and owned by the Principal Shareholder and certain of his colleagues (the "Other Current Shareholders"), as set forth on Exhibit A, and for which the Principal Shareholder and the Other Current Shareholders paid Newco $1,000,000 in cash; (ii) $29,000,000 principal amount of junior convertible debentures of Newco, all of which were issued to the Principal Shareholder for a like amount of cash and are automatically convertible into 29,000,000 shares of Newco Common Stock upon the expiration of the waiting period under the HSR Act (as defined below) for the acquisition by the Principal Shareholder of 50% or more of the outstanding voting securities of Newco; and (iii) $45,000,000 principal amount of junior debentures of Newco, all of which were issued to the Principal Shareholder for a demand promissory note of the Principal Shareholder in a like aggregate principal amount and secured by certain marketable securities.

Newco and the Securityholders desire to provide certain assurances to each other concerning the protection of the Securityholders' investments in Newco and concerning the manner in which the affairs of Newco will be conducted and to provide for the manner in which Newco Shares may be held and disposed of.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein set forth the parties hereto agree as follows:

1. Definitions. When used in this Agreement, the following words or phrases have the respective meanings set forth below:

1.1 "affiliate" with respect to any person shall mean any other person controlling, controlled by or under common control with such person.

1.2 "associate" when used to indicate a relationship with any person, shall mean (1) a corporation or other entity of which such person is a director, officer or partner or is, directly or indirectly, the beneficial owner of 10% or more of any class or equity securities, (2) any trust or other estate in which such person has a substantial beneficial interest or as to which such person serves as trustee or in a similar capacity, and (3) the spouse or any

parent, child, sibling, mother- or father-in-law, son- or daughter-in-law or brother- or sister-in-law of such person, or any corporation or other entity in which any such relative is a director, officer or partner or directly or indirectly the beneficial owner of 10% or more of any class of equity securities.

1.3 "control" (including the terms "controlling," "controlled by" and "under common control with") shall mean the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise.

1.4 "equity security" shall mean any equity security (as such term is defined in Rule 405 promulgated under the Securities Act).

1.5 "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

1.6 "HSR Act" shall mean the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder.

1.7 "involuntary transfer" shall mean, with respect to any Newco Shares or Newco Warrants that are subject to this Agreement, any transfer, proceeding or action

by or in which a person shall be deprived or divested of his right, title or interest in or to any such securities without such person, prior to such transfer having evidenced his voluntary intent to effect such change (including, without limitation, any seizure under levy of attachment or execution, sale at foreclosure or other transfer in the exercise of rights of a secured party, or transfer in connection with bankruptcy or other court proceeding to a trustee in bankruptcy or receiver or other officer or agency and any retention of any such securities by a secured party in satisfaction of a debtor's obligation, effective immediately upon the expiration of the debtor's time to object to any post-default proposal of the secured party so to retain any such securities or upon the post-default waiver by the debtor of its right to receive such notice), but shall not include any transfer as a result of the death or incompetence of such person.

1.8 "Newco Shares" shall mean all or any of the shares of capital stock of Newco, of any class now or hereafter existing, including without limitation the Newco Common Stock (or the capital stock of any other corporation into or with which Newco may be merged or consolidated and which capital stock is issued in exchange for capital stock in Newco).

1.9 "Newco Warrants" shall mean the warrants to purchase Newco Shares issued to Oldco pursuant to the Assets Purchase Agreement on the date of original execution of this Agreement.

1.10 "person" shall mean any individual, corporation, partnership, firm, group (as such term is used under Section 13(d)(3) of the Exchange Act), joint venture, association, joint stock company, trust, unincorporated organization, governmental or regulatory body or other entity.

1.11 "public company" shall mean a corporation the shares of common stock of which (i) are listed on the New York or American Stock Exchange or are regularly quoted on the NASDAQ System, and (ii) to the extent of not less than 25% of the outstanding voting power thereof (treating as outstanding the shares issuable upon the exercise of outstanding warrants or other equity securities), are held of record and beneficially by persons other than the Securityholders, the Other Current Shareholders and the affiliates and associates of all the foregoing persons and of Newco.

1.12 "SEC" shall mean the Securities and Exchange Commission or any successor agency.

1.13 "Securities Act" shall mean the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

1.14 "Securityholder" shall mean Oldco, the Principal Shareholder and each subsequent owner of Newco Shares or Newco Warrants who becomes, or who is required to become, as provided herein, a party to this Agreement.

1.15 "transfer" shall mean sell, assign, convey, donate, transfer or otherwise dispose of, or contract to transfer.

2. Certificate of Incorporation and By-Laws; Certain Corporate and Individual Action.

2.1 Certificate of Incorporation. The Certificate of Incorporation of Newco is in the form annexed hereto as Exhibit B. No amendment to the Certificate of Incorporation of Newco has been authorized by any corporation action, except amendments to change Newco's name to "Atari Corp" and to increase its Common Stock up to 75,000,000 shares, par value $1.00 per share.

2.2 By-laws. The By-laws of Newco as in effect at the date hereof are in the form annexed hereto as Exhibit C. No amendment to such By-laws has been authorized by any corporation action.

2.3 Prior Notice of Shareholder Action. The Principal Shareholder shall not give any written consent to any corporate action unless the other Securityholder(s) shall have been given at least ten days' prior written notice of the proposed action or shall have waived such notice in

writing, whether or not the other Securityholder(s) shall be entitled to vote on such matter. No record date shall be fixed for a meeting of Newco's shareholders unless at least ten days' prior written notice of such meeting and the purposes thereof are transmitted to the Securityholders.

2.4 Conversion of Junior Convertible Debenture. The Principal Shareholder shall with reasonable promptness, and in any event within 30 days, after the date hereof file or cause to be filed with the Federal Trade Commission and the Antitrust Division of the Department of Justice complete and accurate notification and report forms under the HSR Act with respect to his acquisition of 50% or more of the voting securities of Newco. Promptly after the waiting period under the HSR Act, including any extensions thereof, shall have expired or terminated, the Principal Shareholder shall surrender his Junior Convertible Debenture of Newco for a certificate or certificates representing the 29,000,000 shares of Newco Common Stock into which such debenture shall have been converted pursuant to its terms. The Principal Shareholder shall not transfer his Junior Convertible Debenture to any person without the consent of Oldco. The shares of Newco Common Stock issuable on conversion of the Junior Convertible Debenture shall for all purposes of this Agreement at all times prior to issuance and thereafter while owned by the Principal Shareholder or any Securityholder be treated as shares subject to this Agreement.

2.5 Amendments and Other Corporate Changes. Notwithstanding any other provisions of the Certificate of Incorporation or By-laws of Newco, the parties shall not permit Newco to take any of the following actions unless it shall have been approved in writing by (A) the holders of not less than 85% of the Newco Shares then subject to this Agreement, (B) the holders of the Debt Securities (including any Debt Securities originally issued to affiliates of Oldco in connection with the Assets Purchase Agreement if Oldco no longer owns any Debt Securities) and (C) only with respect to clause (iii) below, the holders of not less than a majority of the Warrants:

(i) Amend Newco's Certificate of Incorporation or By-laws, other than to increase its Common Stock up to 75,000,000 shares, par value $1.00 per share or change its name to "Atari Corp."; or

(ii) Approve any merger, consolidation, sale of all or substantially all the assets or the dissolution of Newco;

(iii) Authorize the adoption of one or more employee stock option, stock bonus, stock appreciation, phantom stock or other equity related incentive plan for officers, directors or employees of Newco or its subsidiaries pursuant to which aggregate grants, under all such plans, for

more than 1,000,000 shares of Newco common stock, or the equivalent thereof, may be made.

2.6 Restriction on Sale in Relation to Public Offering. Subject to the provisions of Section 3, at the request of Newco, each Securityholder shall consent in writing not to sell in a public sale any of his Newco Shares or Newco Warrants during the pendency of any offering by Newco of its equity securities registered under the Securities Act and for such period, not to exceed six months, following the closing date thereof as may be recommended by the managing underwriter of such offering. The Principal Shareholder represents that the Other Current Shareholders have agreed to the same restriction on the sale of their Newco Common Stock. The Securityholders covenant that they shall obtain agreement to the same restriction from any transferee of their respective Newco Shares or Newco Warrants in a private placement thereof.

2.7 Restriction on Sales Prior to Public Offering. Prior to the completion of the Initial Offering (as such term is defined in the Assets Purchase Agreement), no Newco Shares shall be issued other than pursuant to (i) the Initial Offering or (ii) an employee benefit plan contemplated by clause (iii) of Section 2.5.

3. Registration Rights in Newco Securities.

3.1 Requested Registrations.

(a) Request Procedure. Oldco and/or any person who has acquired Newco Shares or Newco Warrants from Oldco other than pursuant to an involuntary transfer or a public offering registered under the Securities Act (the "Registering Securityholder(s)"), may from time to time request Newco to register under the Securities Act the proposed sale by such Registering Securityholder(s) of Newco Shares and/or Newco Warrants pursuant to an underwritten public offering. The registration rights contained in this Section 3.1 shall be subject to the following conditions: (i) requests for registration shall not be made more frequently than once every twelve months by Oldco and its transferees; (ii) no more than five such requests in the aggregate shall be made by Oldco and its transferees; (iii) prior to June 30, 1986, no Registering Securityholder(s) shall make such a request unless a public offering of Newco Shares registered under the Securities Act has theretofore occurred; and (iv) no such request shall be made without the consent of Newco unless the Newco Shares and/or Newco Warrants to which it applies represent either 5% or more of the total outstanding voting power of Newco or all of the Newco Shares and Newco Warrants beneficially owned by Oldco and all persons who then qualify as Registering Securityholder(s) (for the purposes of this clause (iv) all of the Newco Shares issuable upon the

exercise of outstanding Newco Warrants shall be treated as outstanding). The Registering Securityholder(s) shall consult with Newco as to the selection of the managing underwriter, for any public offering of Newco Shares and/or Newco Warrants under this Section 3.1 and the terms of such offering.

(b) Obligations of Newco. In connection with any request for registration made pursuant to Section 3.1(a), Newco shall cooperate fully and proceed as expeditiously as possible in the preparation of the registration statement relating to such public offering and shall use its best efforts (and each Securityholder and Registering Securityholder shall consent to all action necessary to enable Newco) to:

(i) Execute and deliver all such instruments and documents, and do or cause to be done all such other acts and things, as may be necessary or advisable to register the Newco Shares and/or Newco Warrants to be registered under the Securities Act and to use its best efforts to cause the registration statement relating thereto to become effective and to remain effective for such period as prospectuses are required by law to be furnished, and to make all amendments and supplements thereto and to the related prospectus that are necessary or advisable, all in conformity with the requirements of the Securities Act;

(ii) Qualify the Newco Shares and/or Newco Warrants being registered under applicable securities or "Blue Sky" laws of the various jurisdictions of the United States as the Registering Securityholder(s) shall reasonably request and obtain all necessary governmental approvals under such laws for the offer and sale of such shares or warrants; provided, however, that Newco shall not be required to qualify to do business in any jurisdiction where it is not then so qualified or to take any action which would subject it to general or unlimited service of process in any jurisdiction where it is not then so subject;

(iii) Make available to Newco's security holders, as soon as practicable, an earnings statement which will satisfy the provisions of Section 11(a) of the Securities Act;

(iv) Execute and deliver all instruments and documents (including an underwriting agreement in customary form for secondary public offerings of equity securities of issuers not theretofore subject to the reporting requirements of the Exchange Act, if applicable) necessary or advisable to effect an underwritten public offering of the Newco Shares and/or Newco Warrants;

(v) If Newco Shares are not registered under the Exchange Act at the time of such request, effect such split or subdivision of its outstanding shares of capital stock as the managing underwriter of such offering

may reasonably request in order to offer such Newco Shares and/or Newco Warrants at a price per share that such managing underwriter believes most favorable for a successful offering; and

(vi) Do or cause to be done all such other acts and things as may be required to be done by the issuer to make the offer and sale of such Newco Shares and/or Newco Warrants comply with applicable law.

(c) Costs. The out-of-pocket expenses of each registration under this Section 3.1, including, without limitation, underwriting costs, commissions and discounts, legal fees and disbursements, incremental accounting fees and disbursements, printing expenses, escrow fees and expenses, all filing fees and all costs of compliance with this Section 3.1, shall be paid by by the Registering Securityholder(s). All costs and expenses of Newco's employees to the extent that the financial statements and other information used in connection with such registration statement or otherwise in such public offering are prepared by such persons, and all accounting fees and disbursements not solely attributable to such registration statement shall be borne by Newco for all such registrations.

3.2 Piggyback Rights.

(a) Notification Procedure. If at any time Newco proposes to file a registration statement with the SEC under the Securities Act relating to a public offering of

its equity securities (the "Registration Statement"), Newco shall give written notice to Oldco and to each other Registering Securityholder of which it has knowledge at least 20 days prior to such filing; provided, however, that Newco shall not be required to give such notice if the proposed registration is (i) the initial registration to be filed for Newco under the Securities Act and the only securities to be registered are a primary issuance by and for the account of Newco, or (ii) a registration of an employee stock ownership, stock option, stock purchase or other employee incentive plan or arrangement adopted in the ordinary course of business, or (iii) a registration of securities to be issued in exchange for securities or assets of, or in connection with a merger or consolidation with, another corporation. Each Registering Securityholder shall have the right, by written notice to Newco given within 20 days after Newco's notice, to have Newco include in the Registration Statement up to the total number of Newco Shares held by such Registering Securityholder (including therein the number issuable upon exercise of his Newco Warrants); provided, however, that any shares included in the Registration Statement for the account of a Registering Securityholder shall be sold in the same manner as other securities that are included in the Registration Statement and each Registering Securityholder shall pay to the underwriters, commissions or discounts in respect of the Newco Shares so included for its account at the same rate as the commissions or discounts to

be paid to the underwriters by Newco in the Registration Statement and any other expenses directly attributable to such Shares.

(b) Limitations on Includible Shares. Notwithstanding the provisions of Section 3.2(a), Newco shall not be required to include any Newco Shares in a Registration Statement for a Registering Securityholder if the managing underwriter shall advise Newco that, in its judgment, inclusion in the Registration Statement of all or a portion of the Newco Shares requested to be included by the Registering Securityholder would adversely affect a successful offering. The number of Newco Shares to be included in the Registration Statement for the account of Newco shall be conclusively determined by the Board of Directors of Newco. If the managing underwriter advises Newco that the inclusion in the Registration Statement of Newco Shares requested to be so included for the accounts of the Registering Securityholders and other stockholders having similar registration rights would adversely affect the offering, but that some of such shares can be included (the "Includible Shares") without such effect, then the number of Newco Shares to be included in the Registration Statement by the Registering Securityholders and such other stockholders shall be reduced proportionately so that the number of shares included in the Registration

Statement for a Registering Securityholder requesting registration shall be the lesser of (i) the number of shares requested to be registered by such Registering Securityholder or (y) the number of Includible Shares, multiplied by a fraction, the numerator of which shall be the number of Newco Shares owned (or which would be owned upon exercise of the Newco Warrants) by the Registering Securityholder and the denominator of which is the total number of Newco Shares (including Newco Shares issuable upon exercise of the Newco Warrants) that are owned by all such stockholders requesting registration of their Newco Shares and who are entitled to have their Newco Shares included in the Includible Shares pursuant to this Section 3.2(b). Such proration shall be continued, if necessary, until all Includible Shares are allocated to the Registering Securityholders and other stockholders having corresponding registration rights and who have requested registration. The number of Newco Shares to be included in the Registration Statement for the account of Newco shall not be reduced.

(c) Costs. All costs and expenses incurred in connection with the preparation, filing, processing, cancellation or withdrawal of the Registration Statements under this Section 3.2 (except underwriting commissions and discounts and fees and disbursements of any separate counsel, other than counsel also representing Newco, retained by the

Registering Securityholders and any other expenses directly attributable to such shares) shall be borne by Newco. Such costs and expenses shall include all legal and accounting fees and disbursements, printing expenses, escrow fees and expenses, all filing fees, all other costs of compliance with this Section 3.2 and all costs and expenses of Newco's employees to the extent that the financial statements and other information used in connection with the Registration Statement are prepared by such persons.

3.3 Cooperation in Offering Procedures. Each Securityholder agrees to cooperate (and, on the part of Oldco, to use its best efforts to cause any of its transferees who are registering Newco Shares and/or Newco Warrants to cooperate) with Newco and with each other Registering Securityholder in preparing the registration and underwriting materials, in responding to comments of the SEC staff related thereto and in qualifying the Newco Shares and/or Newco Warrants being registered under the applicable "Blue Sky" laws in connection with any registration in which any Registering Securityholder is selling any Newco Shares and/or Newco Warrants under this Section 3.

3.4 Indemnification.

(a) By Newco. In the case of each registration effected by Newco pursuant to Section 3.1 or 3.2,

Newco will indemnify and hold harmless each Registering Securityholder, its officers and directors, each underwriter of the securities registered and each person who controls any Registering Securityholder and any such underwriter within the meaning of Section 15 of the Securities Act against any and all losses, claims, damages or liabilities to which they or any of them may become subject under the Securities Act or any other statute or common law, including any amount paid in settlement of any litigation, commenced or threatened, and to reimburse them for any legal or other expenses incurred by them in connection with investigating any claims and defending any actions (subject to Section 3.4(c)), insofar as any such losses, claims, damages, liabilities or actions arise out of or are based upon (i) any untrue statement or alleged untrue statement of a material fact contained in the registration statement, or any post-effective amendment thereof, or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (ii) any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus, if used prior to the effective date of such registration statement, or contained in the prospectus (as amended or supplemented if Newco filed any amendment thereof or supplement thereto with the SEC) if used

within the period during which Newco is required to keep the registration statement to which such prospectus relates current pursuant to the terms hereof, or the omission or alleged omission to state therein (if so used) a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading; providing, however, that the indemnification agreement contained in this Section 3.4(a) shall not (x) apply to such losses, claims, damages, liabilities or actions arising out of, or based upon, any such untrue statement or alleged untrue statement, or any such omission or alleged omission, if such statement or omission was made in reliance upon and in conformity with information furnished in writing to Newco by the Registering Securityholder for use in connection with the preparation of the registration statement or any preliminary prospectus or prospectus contained in the registration statement or any such amendment thereof or supplement thereto, or (y) inure to the benefit of any underwriter from whom the person asserting any such losses, claims, damages, expenses or liabilities purchased the securities which are the subject thereof (or to the benefit of any person controlling such underwriter) if such underwriter failed to send or give a copy of the prospectus to such person at or prior to the written confirmation of the sale of such securities to such person.

(b) By a Registering Securityholder. In the case of each registration effected by Newco pursuant to Section 3.1 or 3.2, each Registering Securityholder shall agree, in the same manner and to the same extent as set forth in Section 3.4(a), to indemnify and hold harmless Newco and each person, if any, who controls Newco within the meaning of Section 15 of the Securities Act, its directors and officers, with respect to any statement in or omission from such registration statement or any post-effective amendment thereof or any preliminary prospectus or prospectus (as amended or supplemented, if amended or supplemented as aforesaid) contained in such registration statement, if such statement or omission was made in reliance upon and in conformity with information furnished in writing to Newco by the Registering Securityholder for use in connection with the registration statement or any post-effective amendment thereof or any preliminary prospectus or prospectus contained in such registration statement or any such amendment thereof or supplement thereto.

(c) General. Each party entitled to indemnity under this Section 3.4 ("indemnified party") will, promptly after the receipt of notice of the commencement of any action against such indemnified party in respect of which indemnity may be sought from any other party ("indemnifying

party") on account of an indemnify agreement contained in this Section 3.4, notify the indemnifying party in writing of the commencement thereof. The failure of any indemnified party so to notify an indemnifying party of any such action shall not relieve the indemnifying party from any liability in respect of such action that it may have to such indemnified party on account of the indemnity agreement contained in this Section 3.4. except to the extent that such indemnifying party can establish that it has been prejudiced in its ability to defend against or settle such action by such failure. In addition, any failure to give such notice shall not relieve the indemnifying party from any other liability that it may have to such indemnified party. Notice given within 20 days of commencement of any action shall be conclusively presumed not to adversely affect the indemnifying party's ability to defend or settle the action. In case any such action is brought against any indemnified party and such indemnified party notifies an indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and to the extent it may wish, jointly with any other indemnifying party similary notified, to assume the defense thereof with counsel satisfactory to such indemnified party and, after notice from the indemnifying party to such indemnified party of its election so to assume the defense

thereof and acknowledgement in writing by the indemnifying party that the claim in question is one for which the indemnifying party is obligated to indemnify the indemnified party, the indemnifying party will not be liable to such indemnified party for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation; provided, however, that if such indemnified party has a reasonable basis to believe, and does believe, that its interests in such action conflict with those of the indemnifying party, the indemnified party may so notify such indemnifying party and the indemnifying party will remain liable to such indemnified party for all legal or other expenses incurred by such indemnified party in connection with the defense of such action.

4. Limitation on Activities. So long as Oldco directly or indirectly shall beneficially own Newco Shares and Newco Warrants representing (upon exercise of such Warrants) an aggregate of at least 10% of the total outstanding voting power of Newco, neither the Principal Shareholder nor any person under his control will, directly or indirectly, at any time before June 30, 1989, without the prior written consent of Oldco and of Newco, (i) engage (whether as an officer, director, employee, individual proprietor, principal, agent,

trustee, advisor, consultant, holder of debt or equity securities, partner, or otherwise) in the home computer or home video game business anywhere in the world other than through Newco and its subsidiaries, or (ii) acquire any direct or indirect interest in any person other than Newco and its affiliates supplying any goods, rights or services to Newco or acquiring goods, rights or services from Newco. The Principal Shareholder and Newco represent that Newco and the Principal Shareholder have entered into corresponding agreements with each of the other Current Shareholders. The provisions of this Section 4 shall not be deemed to prohibit the Principal Shareholder or any other Current Shareholder from acquiring solely for investment and not as part of a control group (as defined under the Exchange Act) not more than 5% of the outstanding shares or debt of a public company.

5. Right of Co-Sale.

5.1 Sale by Principal Shareholder. If at any time the Principal Shareholder proposes to sell or otherwise dispose of any of his Newco Shares to any person other than an affiliate or associate of his or in a transaction excepted under Section 5.5, he shall first notify Oldco of such intent, specifying therein the terms and conditions of the proposed sale or other disposition. If Oldco shall notify the Principal Shareholder in writing within 20 days after receipt

of such notice from the Principal Shareholder, Oldco shall have the opportunity to sell or dispose of up to the same percentage of its Newco Shares (assuming the conversion into Newco Shares of all Newco Warrants then held by Oldco) as the percentage of Newco Shares then owned by the Principal Shareholder that he proposes to sell or otherwise dispose of to such third party, whereupon the Principal Shareholder shall assign so much of his interest in the agreement of sale or other disposition as Oldco is entitled and shall request hereunder and Oldco shall assume such part of the obligations of the Principal Shareholder under such agreement as shall relate to the sale or other disposition of the securities by Oldco. All references to Oldco in this Section 5 shall be deemed to include transferees of Oldco to whom Oldco shall have transferred its Newco Shares or Newco Warrants and its rights under this Section 5.1 in a private placement.

5.2 Transfer of Newco Shares to Associates and Affiliates. So long as the provisions of this Section 5 shall apply, the Principal Shareholder shall not transfer any of his Newco Shares to any affiliate or associate except pursuant to an undertaking by such affiliate or associate to hold such Newco Shares subject to the provisions of, and to afford Oldco and its transferees the rights provided for in, this Section 5 in the same manner as if all such Newco Shares continued to be held by the Principal Shareholder.

5.3 Co-Sale by Other Current Shareholders. The Principal Shareholder and Newco represent and warrant that each of the Other Current Shareholders has executed an agreement with Newco and with the Principal Shareholder extending for the benefit of Oldco (and its transferees as provided in Section 5.1) provisions granting Oldco the same right of co-sale in connection with any sale or other disposition of Newco Shares by such Other Current Shareholder as Oldco has under this Section 5 in connection with a sale or other disposition by the Principal Shareholder.

5.4 Recording of Transfers. Newco shall not register or permit any transfer agent to register on its stock records any transfer of Newco Shares by the Principal Shareholder or any Other Current Shareholder unless it shall receive satisfactory evidence of compliance with this Section 5.

5.5 Exceptions to Right of Co-sale. Oldco's rights of co-sale under Sections 5.1 and 5.3 shall not apply:

(i) To any sale or transfer of Newco Shares in a public offering registered under the Securities Act;

(ii) To any sale or transfer of Newco Shares effected pursuant to Rule 144 under the Securities Act (including the volume limitations thereof, regardless of the applicability thereof); and

(iii) To any sale of less than 10,000 Newco Shares not substantially concurrent with or related to any other sale or sales that would, in the aggregate, exceed such number.

6. Endorsement of Stock Certificates.

6.1 Secretary's Copy. Copies of this Agreement shall be filed with the Secretary of Newco and kept with the records of Newco.

6.2 Legend on Certificates. Until Newco shall become a public company each certificate representing Newco Shares or Newco Warrants subject to this Agreement shall bear a reference to this Agreement in substantially the following form:

> "The securities represented by this certificate are subject to certain restrictions and are subject to certain options and to certain agreements concerning the voting hereof under the provisions of an Agreement dated as of July 1, 1984 among Tramel Technology, Ltd., Atari, Inc. and Jack Tramiel, or any successor agreement thereto, as the same may be amended from time to time (the "Agreement"), all of which are described in the Agreement, a signed counterpart of which is on file at the offices of the Corporation and a copy of which will be furnished to any stockholder upon request and without charge."

The Principal Shareholder agrees promptly to exchange (or to cause its subsidiaries promptly to exchange) the stock certificates evidencing his Newco Shares for replacement stock certificates bearing the legend set forth in this Section 6.2.

7. No Fractional Shares. No fractional shares shall be sold or transferred pursuant to this Agreement. Adjustments, if necessary, shall be made by rounding to the nearest full share.

8. Termination of Portions of Agreement. The provisions of Sections 2 and 5 of this Agreement shall automatically terminate upon the occurrence of either of the following events:

8.1 At any time by the election in writing of the holders of at least 85% of the Newco Shares then subject to this Agreement (including therein the number of Newco Shares issuable on exercise of the Newco Warrants then subject to this Agreement); or

8.2 At such time as Newco becomes a public company.

9. Final Termination. In any event, all of the provisions of this Agreement shall automatically terminate on the tenth anniversary of the date hereof.

10. Notices. All notices, statements, requests, instructions, waivers or other documents required or permitted to be given hereunder shall be in writing and shall be given either personally, or by mailing the same in a sealed envelope, first-class mail, postage prepaid and either certified or reg-

istered, return receipt requested, or by telegram or telex, tolls prepaid, addressed to any Securityholder at its mailing address as set forth in the record of shareholders of Newco and to Newco at the mailing address set forth below.

For Newco:

Tramel Technology, Ltd.
1265 Borregas Avenue
Sunnyvale, California 94789

With a copy to:

Schreiber & McBride
30 Park Avenue
New York, New York 10016

Attention: Leonard I. Schreiber, Esq.

For Oldco:

Atari, Inc.
75 Rockefeller Plaza
New York, New York 10019

Attention: General Counsel

With a copy to:

Paul, Weiss, Rifkind, Wharton & Garrison
345 Park Avenue
New York, New York 10154

Attention: Peter R. Haje, Esq.

Each person, by written notice given in accordance with this Section 10, may change the address to which notices, statements, requests, instructions, waivers or other documents are to be sent to such person. All notices, statements, requests, instructions, waivers and other documents hereunder that are telegraphed or telexed shall be deemed to have been

given on the date of the transmission or, if mailed, on the fourth business day after the date of mailing.

11. Consent to Jurisdiction and Service. All parties hereto (i) agree that any legal suit, action or proceeding arising out of or relating to this Agreement may be instituted in a state or federal court in the City of New York, State of New York in the United States of America, (ii) waive any objection which they may now or hereafter have to the laying of the venue of any such suit, action or proceeding, and (iii) irrevocably submit to the non-exclusive jurisdiction of the United States District Court for the Southern District of New York, or any court of the State of New York located in the County of New York, in any such suit, action or proceeding. Further, all parties hereto agree that the mailing of any process in any suit, action or proceeding in accordance with the notice provisions of this Agreement shall constitute personal service thereof.

12. Miscellaneous.

12.1 Binding Effect; Third Party Beneficiaries. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns as permitted hereunder. The provisions of this Agreement are solely for the benefit of the parties hereto and their permitted assigns or other transferees as provided herein and may not be enforced by any other person.

12.2 Governing Law. This Agreement shall be governed by, and construed in accordance with, the internal laws of the State of New York applicable to agreements made and to be performed entirely within such State.

12.3 Entire Agreement. This Agreement sets forth the entire agreement and understanding of the parties in respect of the subject matter hereof and supersedes all prior agreements, arrangements and understandings relating to the subject matter hereof.

12.4 Counterparts. This Agreement may be executed in counterparts and each duplicate shall constitute an original, any one of which may be introduced as evidence or for any other purposes without the presentation of its duplicate counterparts. All such counterparts shall constitute one and the same instrument binding on all of the parties.

12.5 Amendments; Waivers. This Agreement may be amended, modified, superseded or cancelled, and any of the terms herein may be waived, only by a written instrument executed by the parties hereto. The failure of any party at any time or times to require performance of any provision hereof shall in no manner affect the rights at a later time to enforce the same. No waiver by any party of the breach of any term contained in this Agreement, whether by conduct or

otherwise, in any one or more instances, shall be deemed to be or construed as a further or continuing waiver of any such breach or of the breach of any other term of this Agreement.

12.6 Specific Performance. Each of the parties hereto acknowledges that it will be impossible to measure in money the damage to Newco or to the Shareholders if any party hereto fails to comply with the provisions of this Agreement and each party hereto therefore agrees that in the event of any such failure, neither Newco nor any Shareholder will have an adequate remedy at law. Therefore, Newco and each Shareholder, in addition to any other rights they may have, shall be entitled to injunctive relief or to specific performance or to other equitable relief to enforce the provisions of this Agreement and in the event that any action or actions should be brought in equity to enforce any of the provisions of this Agreement, no party will allege, and each party hereby waives, the defense that there is an adequate remedy at law.

12.7 Severability. In case any one or more of the provisions contained in this Agreement shall be invalid or unenforceable in any respect, the validity and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby and the par-

ties will attempt to agree upon a valid and enforceable provision which shall be a reasonable substitute for such invalid or unenforceable provision in light of the tenor of this Agreement and, upon so agreeing, shall incorporate such substitute provision in this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be duly executed as of the day and year first above written.

TRAMEL TECHNOLOGY, LTD.

By _____

ATARI, INC.

By _____

_____
Jack Tramiel

LIST OF OMITTED SCHEDULES AND EXHIBITS
TO EXHIBIT 2.3 TO THIS REGISTRATION STATEMENT

Schedule or Exhibit	Description
A	List of security holders of Registrant
B	Articles of Incorporation of Registrant
C	Bylaws of Registrant

Agreement to Furnish Omitted Schedules

Subject to Registrant's right to request confidential treatment pursuant to Rule 406 under the Securities Act of 1933, Registrant agrees to furnish supplementally a copy of any omitted schedule to the Securities and Exchange Commission upon request.

Exhibit 2.4

INTELLECTUAL PROPERTY RIGHTS HEADS OF AGREEMENT

This Agreement is made between Atari, Inc. ("OLDCO") and Tramel Technology, Ltd. ("NEWCO") relating to various matters concerning the intellectual and industrial property rights' assets which are the subject matter of that certain agreement being entered into concurrently herewith between the parties hereto (the "Basic Agreement") entitled "Assets Purchase Agreement". NEWCO and OLDCO hereby agree as follows:

1. All of the terms used in this Heads of Agreement shall have the same meanings as set forth for such terms in the Basic Agreement. In addition, the following terms, as used herein, shall have the meanings set forth below:

(a) "Name and Logo Rights" shall mean the word, name, logo and design shown on Schedule N-(a) attached hereto, or any combination thereof, including all trademarks, trademark applications, trademark registrations therefor and all service marks, trade names and trading styles relating thereto.

(b) "Copyrights" shall mean all right, title and interest in and to copyrights and rights to

copyright, including United States and foreign registrations, all renewals, extensions and reversions thereof which may be secured under the laws now or hereafter in effect and all causes of action for infringement, if any, heretofore or hereafter occurring.

(c) "Trademark Rights" shall mean all trademarks, trademark applications, trademark registrations, service marks, trade names and trading styles, including the goodwill associated with the respective businesses to which they relate, but specifically excluding the Name and Logo Rights.

(d) "Patent Rights" shall mean inventions, letters patent and rights to or under any letters or applications for letters patent, but specifically excluding all rights to the invention or inventions set forth on Schedule n-(d).

(e) "Technical Know-How" shall mean technology, know-how, research memoranda, results of tests, data and information resulting from testing or manufacture, manufacturing drawings, drawings of manufacturing and test equipment, trade secrets, charts, data and information relating to testing

or manufacturing procedures and standards, descriptive and technical literature, formulae, specifications, parts lists including specifications, blueprints, manuals, process manufacturing sequence and operation sheets and other information other than Copyrights, Patent Rights, Trademark Rights and Name and Logo Rights owned by OLDCO.

(f) "Intellectual Property Rights" shall mean Copyrights, Trademark Rights, Patent Rights and Technical Know-How collectively.

(g) "Material Intellectual Property Rights" shall mean, as appropriate, all Intellectual Property Rights conceived, created and having first application to the Exclusive Business of either the Purchased Assets or the Excluded Assets.

(h) "Exclusive Business" shall mean the respective particular line of business operations heretofore conducted with the Purchased Assets or Excluded Assets, as appropriate.

2. OLDCO hereby agrees to assign, or cause to be assigned to NEWCO, its successors and assigns, all right, title and interest in and to the Name and Logo throughout the world as heretofore used in connection with the Purchased

assets, including the goodwill symbolized thereby and associated therewith.

3. OLDCO hereby reserves and retains for itself, its successors and assigns, all right, title and interest in and to the Name and Logo throughout the world insofar as the same relate to the Excluded Assets, including the goodwill symbolized thereby and associated therewith. It is understood that OLDCO will continue to use, without interruption, the said Name and Logo, from and after the date hereof, solely in connection with the Exclusive Business of OLDCO.

4. OLDCO hereby agrees to assign, or cause to be assigned to NEWCO, its successors and assigns, all right, title and interest in and to the Material Intellectual Property Rights owned or controlled by OLDCO which relate to the Purchased Assets.

5. OLDCO hereby reserves and retains for itself, its successors and assigns, all right, title and interest in and to the Material Intellectual Property Rights relating to the Excluded Assets. It is understood that OLDCO will continue to use, without interruption, the said Material Intellectual Property Rights, from and after the date hereof, solely in connection with the Exclusive Business of OLDCO.

6. NEWCO agrees that OLDCO, its successors and assigns, shall have the exclusive right, in perpetuity, and

without payment of any royalty whatsoever, to use in connection with The Exclusive Business of OLDCO, anywhere in the world, all or any part of the Material Intellectual Property Rights reserved and retained by OLDCO in accordance with Paragraph 5, which have heretofore been used in connection with the Excluded Assets.

7. OLDCO agrees that NEWCO, its successors and assigns, shall have the exclusive right, in perpetuity, and without payment of any royalty whatsoever, to use anywhere in the world, all or any part of the Material Intellectual Property Rights assigned to NEWCO pursuant to Paragraph 4 above.

8. NEWCO agrees that OLDCO, its successors and assigns, shall have a first right of refusal for an exclusive license to use in connection with the Exclusive Business of OLDCO, anywhere throughout the world: (1) all or any part of the Material Intellectual Property Rights conveyed to NEWCO in accordance with the terms of Paragraph 4 above, which have not heretofore been used by OLDCO in connection with Excluded Assets; and (2) all Intellectual Property Rights hereafter conceived or created by or for NEWCO.

9. OLDCO agrees that NEWCO, its successors and assigns, shall have a right of first refusal for an exclusive

license for use for the Exclusive Business of NEWCO, anywhere throughout the world, of all Intellectual Property Rights hereafter conceived or created by or for OLDCO.

10. It is understood and agreed that further documentation will be required in order to effectuate the assignments of the Name and Logo pursuant to Paragraph 2 above and to record such assignments with the appropriate authorities in the United States and in foreign countries, and the parties agree to cooperate fully in order to effect the transfer of record title. The parties agree to cooperate fully with regard to such acts so that record ownership may be brought into conformity with the assignments herein made.

11. OLDCO shall continue to have the right to use the Name and Logo as part of its new company name and trading name and NEWCO shall have the right to use the Name and Logo as part of its company name and trading name. However, OLDCO agrees to adopt, and to cause its associate, subsidiary or affiliated companies to adopt, in connection with use of the Excluded Assets in the operation of its Exclusive Business, an additional name, phrase or mark as part of its new company and trading name, which includes distinctive or descriptive elements, in addition to the Name and Logo, so as to ensure a separate corporate identity from

that of NEWCO. In no event shall either party permit the use of the Name and Logo by any associate, subsidiary, joint venture or other affiliated company or entity that is not more than 50% owned or controlled.

12. The parties will consult and cooperate with respect to any unauthorized third party uses of the Name and Logo or any marks or names similar thereto, each remaining free to act individually or to agree to act jointly in taking appropriate action.

13. The parties agree to consult and cooperate in a program designed to communicate to the trade and to the public the facts with respect to the changes brought about by the assignment herein, including, without limitation, jointly sponsoring educational advertising, for the purpose of insuring that there will be no public confusion or deception.

14. OLDCO and NEWCO shall promptly execute any and all documents which are reasonably necessary to effectuate the agreements and obligations set forth in this agreement. All Licenses of Trademark Rights under paragraphs 6 and 7 of this Agreement shall be subject to the approval of the Licensors as to the quality of the products to which such Trademarks Rights are applied.

15. The foregoing represents all of the parties' agreements with respect to the subject matter hereof. It is the intention of the parties that this Heads of Agreement shall be expanded into formal agreements between the parties as soon as practicable and the parties shall enter into such appropriate assignments and license agreements as shall be consistent with the terms and provisions of this Heads of Agreement. Until such times as such formal agreements are completed, or in the event any or all are not, the parties agree that this Heads of Agreement shall be a binding and enforceable agreement between OLDCO and NEWCO.

Dated: July 1, 1984

ATARI, INC.

BY Martin D. Payson

TRAMEL TECHNOLOGY, LTD.

BY Gregory A. Pratt

LIST OF OMITTED SCHEDULES AND EXHIBITS
TO EXHIBIT 2.4 TO THIS REGISTRATION STATEMENT

Schedule or Exhibit	Description
N-(a)	Name, word, logo and design of trademarks covered by the agreement
N-(d)	Patent rights excluded from the agreement

Agreement to Furnish Omitted Schedules

Subject to Registrant's right to request confidential treatment pursuant to Rule 406 under the Securities Act of 1933, Registrant agrees to furnish supplementally a copy of any omitted schedule to the Securities and Exchange Commission upon request.

Exhibit 2.6

D161TA/u[3]

ATARI CORP.
1196 Borregas Avenue
Sunnyvale, California 94086

November 14, 1985

Atari Holdings Inc.
75 Rockefeller Plaza
New York, New York 10019

Warner Communications Inc.
75 Rockefeller Plaza
New York, New York 10019

Dear Sirs:

Reference is made to (i) the Warrant Agreement dated July 1, 1984 (the "Warrant Agreement") between Warner Communications Inc. ("WCI") and Tramel Technology, Ltd. (now named Atari Corp. and referred to herein as "New Atari"); (ii) Warrant Certificate No. W-1, dated as of July 1, 1984, issued under the Warrant Agreement in the name of "Tramel Technology, Ltd." (the "Warrant Certificate"), evidencing 1,000,000 warrants (the "Warrants") to purchase common stock of WCI at an exercise price of $22 a share; (iii) the letter agreement dated August 12, 1985 (the "Escrow Letter Agreement") between WCI and Atari Holdings Inc. ("Old Atari") and its subsidiaries, on the one hand, and New Atari, on the other hand; (iv) the letter agreement dated September 30, 1985 (the "Supplemental Escrow Letter Agreement") between WCI and New Atari; and (v) the Escrow Agreement, dated as of the date hereof (the "Escrow Agreement"), among Old Atari, New

Atari and Schreiber & McBride, as escrow agent (the "Escrow Agent"), being executed and delivered simultaneously herewith.

New Atari and WCI have reached an agreement pursuant to which WCI will acquire the Warrants for a total purchase price of $15,000,000, $13,900,000 of which will be held, invested and distributed pursuant to the Escrow Agreement and the balance of which will be delivered to New Atari.

Accordingly, New Atari, WCI and Old Atari hereby agree as follows:

1. New Atari hereby sells, assigns, transfers, conveys and delivers to WCI the Warrants evidenced by the Warrant Certificate duly endorsed in blank on behalf of New Atari, free and clear of all liens, security interests, charges, claims, restrictions and encumbrances of any nature whatsoever. WCI hereby acknowledges receipt of the Warrant Certificate.

2. The total purchase price for the Warrants is $15,000,000 (the "Purchase Price"), which is being paid by WCI simultaneously herewith as follows:

2.1 WCI is delivering its check payable to the order of New Atari in the amount of $1,100,000.

2.2 WCI is delivering its check payable to the order of the Escrow Agent in the amount of $13,900,000 to

be held, invested and distributed in accordance with the terms of the Escrow Agreement.

3. New Atari hereby acknowledges receipt (subject to collection) of the Purchase Price and acknowledges and agrees that the payment being made pursuant to paragraph 2.2 above is being made at its request and direction and in full satisfaction (together with the payment being made under paragraph 2.1 above) of the Purchase Price.

4. The Warrant Agreement is hereby terminated in all respects, without liability of any party to any other party thereunder.

5. The Escrow Agreement supersedes in all respects the Escrow Letter Agreement and the Supplemental Escrow Letter Agreement.

If the foregoing correctly sets forth the agreement reached between New Atari (on the one hand) and WCI and Old Atari (on the other hand) with respect to the subject matter hereof, please sign the enclosed duplicate copy of this letter in the space indicated therein and return the fully signed copy to the undersigned, at which time this letter shall serve as a binding and enforceable agreement between

New Atari (on the one hand) and WCI and Old Atari (on the other hand).

Very truly yours,

ATARI CORP.

By: _____

ACCEPTED AND AGREED TO:

ATARI HOLDINGS INC.

By: _____

WARNER COMMUNICATIONS INC.

By: _____

The undersigned, the Escrow Agent under the Escrow Agreement referred to in the foregoing letter agreement, hereby acknowledges receipt of WCI's check in the amount of $13,900,000 to be held, invested and distributed as provided in the Escrow Agreement and hereby acknowledges and consents to the provisions of the foregoing letter agreement as they relate to the Escrow Agreement.

SCHREIBER & McBRIDE,
as Escrow Agent

By: _____

Exhibit 3.1

BY: CROWELL, CROWELL, CROWELL,
BAKER & SUSICH
402 NORTH CARSON STREET
CARSON CITY, NEVADA 89701

FILED
IN THE OFFICE OF THE
SECRETARY OF STATE OF THE
STATE OF NEVADA

MAY 17 1984

WM SWACKHAMER SECRETARY OF STATE

NO 3483-84

ARTICLES OF INCORPORATION

OF

TRAMEL TECHNOLOGY, LTD.

I, the person hereinafter named as incorporator, for the purpose of associating to establish a corporation, under the provisions and subject to the requirements of Title 7, Chapter 78 of Nevada Revised Statutes, and the acts amendatory thereof, and hereinafter sometimes referred to as the General Corporation Law of the State of Nevada, do hereby adopt and make the following Articles of Incorporation:

FIRST: The name of the corporation (hereinafter called the corporation) is TRAMEL TECHNOLOGY, LTD.

SECOND: The principal office of the corporation within the State of Nevada is to be located at Crowell Building, c/o The Prentice-Hall Corporation System, Nevada, Inc., 402 North Carson Street, Carson City 89701.

THIRD: The nature of the business of the corporation and the objects or the purposes to be transacted, promoted, or carried on by it are as follows, provided that the corporation may engage in any other lawful activity:

To engage in the business of computer sales, leasing, services, and related activities.

To act as consultants and engage, on its own behalf or for others, in research, appraisal, development and other activities relating to the application, structure, manufacture, fabrication, installation, construction, maintenance, operation, repair, functioning, use and other services relating to computers, computer peripherals and computer software of every kind, nature and description, and in connection therewith, but not by way of limitation, prepare and submit analyses, interpretations, evaluations and recommendations in the fields of computer system technology.

To construct, conduct, maintain and operate offices, sites, centers, laboratories and facilities for research with respect to computers,

computer peripherals, computer software and other related fields, either for itself or others.

To devise, invent, develop, construct, manufacture, fabricate, assemble, install, service, maintain, repair, alter, buy, sell, import, export, license as licensor or licensee, lease as lessor or lessee, distribute, job, enter into, negotiate, execute, acquire, receive, obtain, hold, grant, assign and transfer contracts, selling rights, licensing arrangements, options, franchises and other rights in respect of, and generally deal in and with, at wholesale and retail, as principal, agent, representative, broker, factor, merchant, distributor, jobber, advisor, and in any other lawful capacity, any and all kinds of computers, computer peripherals and computer software for assembling, processing, analyzing, and handling data and reporting the findings and conclusions required therefrom, together with the components, resultants, and by-products thereof; and to acquire by purchase or otherwise own, hold, lease, mortgage, sell or otherwise dispose of, erect, construct, make, alter, enlarge, improve, and to aid or subscribe toward the construction, acquisition or improvement of any laboratories, research and experimental centers and facilities, factories, storehouses, shops, buildings and commercial and retail establishments of every character, including all equipment, fixtures, machinery, implements and supplies necessary, or incidental to, or connected with, any of the purposes or business of the corporation: and generally to perform any and all acts connected therewith or arising therefrom or incidental thereto, and all acts proper or necessary for the purpose of the business.

To carry on a general mercantile, industrial, investing, and trading business in all its branches; to devise, invent, manufacture, fabricate, assemble, install, service, maintain, alter, buy, sell, import, export, license as licensor or licensee, lease as lessor or lessee, distribute, job, enter into, negotiate, execute, acquire, and assign contracts in respect of, acquire, receive, grant, and assign licensing arrangements, options, franchises, and other rights in respect of, and generally deal in and with, at

wholesale and retail, as principal, and as sales, business, special, or general agent, representative, broker, factor, merchant, distributor, jobber, advisor, and in any other lawful capacity, goods, wares, merchandise, commodities, and unimproved, improved, finished, processed, and other real, personal, and mixed property of any and all kinds, together with the components, resultants, and by-products thereof; to acquire by purchase or otherwise own, hold, lease, mortgage, sell, or otherwise dispose of, erect, construct, make, alter, enlarge, improve, and to aid or subscribe toward the construction, acquisition, or improvement of any factories, shops, storehouses, buildings, and commercial and retail establishments of every character, including all equipment, fixtures, machinery, implements, and supplies necessary, or incidental to, or connected with, any of the purposes or business of the corporation; and generally to perform any and all acts connected therewith or arising therefrom or incidental thereto, and all acts proper or necessary for the purpose of the business.

To engage generally in the real estate business as principal, agent, broker, and in any lawful capacity, and generally to take, lease, purchase, or otherwise acquire, and to own, use, hold, sell, convey, exchange, lease, mortgage, work, clear, improve, develop, divide, and otherwise handle, manage, operate, deal in, and dispose of real estate, real property, lands, multiple-dwelling structures, houses, buildings, and other works and any interest or right therein; to take, lease, purchase, or otherwise acquire, and to own, use, hold, sell, convey, exchange, hire, lease, pledge, mortgage, and otherwise handle, and deal in and dispose of, as principal, agent, broker, and in any lawful capacity, such personal property, chattels, chattels real, rights, easements, privileges, choses in action, notes, bonds, mortgages, and securities as may lawfully be acquired, held, or disposed of; and to acquire, purchase, sell, assign, transfer, dispose of, and generally deal in and with, as principal, agent, broker, and in any lawful capacity, mortgages and other interests in real, personal, and mixed properties; to carry on a general construction, contracting, building, and realty management

business as principal, agent, representative, contractor, subcontractor, and in any other lawful capacity.

To enter into general partnerships, limited partnerships (whether the corporation be a limited or general partner), joint ventures, syndicates, pools, associations, and other arrangements for carrying on of one or more of the purposes set forth in its Articles of Incorporation, jointly or in common with others.

To apply for, register, obtain, purchase, lease, take licenses in respect of, or otherwise acquire, and to hold, own, use, operate, develop, enjoy, turn to account, grant licenses and immunities in respect of, manufacture under and to introduce, sell, assign, mortgage, pledge, or otherwise dispose of, and, in any manner deal with and contract with reference to:

(a) inventions, devices, formulae, processes, and any improvements and modifications thereof;

(b) letters patent, patent rights, patented processes, copyrights, designs, and similar rights, trade-marks, trade symbols, and other indications of origin and ownership granted by or recognized under the laws of the United States of America or of any state or subdivision thereof, or of any foreign country or subdivision thereof, and all rights connected therewith or appertaining thereunto;

(c) franchises, licenses, grants, and concessions.

To purchase or otherwise acquire, and to hold, mortgage, pledge, sell, exchange, or otherwise dispose of, securities (which term, for the purpose of this Article THIRD, includes, without limitation of the generality thereof, any shares of stock, bonds, debentures, notes, mortgages, or other obligations, and any certificates, receipts, or other instruments representing rights to receive, purchase, or subscribe for the same, or

representing any other rights or interests therein or in any property or assets) created or issued by any persons, firms, associations, corporations, or governments or subdivisions thereof; to make payment therefor in any lawful manner; and to exercise, as owner or holder of any securities, any and all rights, powers, and privileges in respect thereof.

To make, enter into, perform, and carry out contracts of every kind and description with any person, firm, association, corporation, or government or subdivision thereof.

To acquire, by purchase, exchange, or otherwise, all, or any part of, or any interest in, the properties, assets, business, and good will of any one or more persons, firms, associations, or corporations heretofore or hereafter engaged in any business for which a corporation may now or hereafter be organized under the laws of the State of Nevada; to pay for the same in cash, property, or its own or other securities; to hold, operate, reorganize, liquidate, sell, or in any manner dispose of the whole or any part thereof; and in connection therewith, to assume or guarantee performance of any liabilities, obligations, or contracts of such persons, firms, associations, or corporations, and to conduct the whole or any part of any business thus acquired.

To lend its uninvested funds from time to time to such extent, to such persons, firms, associations, corporations, governments or subdivisions thereof, and on such terms and on such security, if any, as the Board of Directors of the corporation may determine.

To endorse or guarantee the payment of principal, interest, or dividends upon, and to guarantee the performance of sinking fund or other obligations of, any securities, and to guarantee in any way permitted by law the performance of any of the contracts or other undertakings in which the corporation may otherwise be or become interested, of any persons, firm, association, corporation, government or subdivision thereof, or of any other combination, organization, or entity whatsoever.

To borrow money for any of the purposes of the corporation, from time to time, and without limit as to amount; from time to time to issue and sell its own securities in such amounts, on such terms and conditions, for such purposes and for such prices, now or hereafter permitted by the laws of the State of Nevada and by these Articles of Incorporation, as the Board of Directors of the corporation may determine; and to secure such securities by mortgage upon, or the pledge of, or the conveyance or assignment in trust of, the whole or any part of the properties, assets, business, and good will of the corporation, then owned or thereafter acquired.

To purchase, hold, cancel, reissue, sell, exchange, transfer, or otherwise deal in, its own securities from time to time to such an extent and in such manner and upon such terms as the Board of Directors of the corporation shall determine; provided that the corporation shall not use its funds or property for the purchase of its own shares of capital stock when such use would cause any impairment of its capital, except to the extent permitted by law; and provided further that shares of its own capital stock belonging to the corporation shall not be voted upon directly or indirectly.

To organize or cause to be organized under the laws of the State of Nevada, or of any other state of the United States of America, or of the District of Columbia, or of any territory, dependency, colony, or possession of the United States of America, or of any foreign country, a corporation or corporations for the purpose of transacting, promoting, or carrying on any or all of the objects or purposes for which the corporation is organized, and to dissolve, wind up, liquidate, merge, or consolidate any such corporation or corporations or to cause the same to be dissolved, wound up, liquidated, merged, or consolidated.

To conduct its business in any and all of its branches and maintain offices both within and without the State of Nevada, in any and all states of the United States of America, in the District of Columbia, in any or all territories,

dependencies, colonies, or possessions of the United States of America, and in foreign countries.

To such extent as a corporation organized under the General Corporation Law of the State of Nevada may now or hereafter lawfully do, to do, either as principal or agent and either alone or in connection with other corporations, firms, or individuals, all and everything necessary, suitable, convenient, or proper for, or in connection with, or incident to, the accomplishment of any of the purposes or the attainment of any one or more of the objects herein enumerated, or designed directly or indirectly to promote the interests of the corporation or to enhance the value of its properties; and in general to do any and all things and exercise any and all powers, rights, and privileges which a corporation may now or hereafter be organized to do or to exercise under the General Corporation Law of the State of Nevada or under any act amendatory thereof, supplemental thereto, or substituted therefor.

The foregoing provisions of this Article THIRD shall be construed both as purposes and powers and each as an independent purpose and power. The foregoing enumeration of specific purposes and powers shall not be held to limit or restrict in any manner the purposes and powers of the corporation, and the purposes and powers herein specified shall, except when otherwise provided in this Article THIRD, be in no wise limited or restricted by reference to, or inference from, the terms of any provision of this or any other Article of these Articles of Incorporation; provided, that the corporation shall not carry on any business or exercise any power in any state, territory, or country which under the laws thereof the corporation may not lawfully carry on or exercise.

FOURTH: The amount of the total authorized capital stock of the corporation is fifty million dollars, consisting of fifty million shares of a par value of one dollar each. All of said shares are of one class and are designated as Common Stock.

No holder of any of the shares of any class of the corporation shall be entitled as of right to subscribe for, purchase, or otherwise acquire any shares of any class of the corporation which the corporation proposes to issue or

any rights or options which the corporation proposes to grant for the purchase of shares of any class of the corporation or for the purchase of any shares, bonds, securities, or obligations of the corporation which are convertible into or exchangeable for, or which carry any rights, to subscribe for, purchase, or otherwise acquire shares of any class of the corporation; and any and all of such shares, bonds, securities or obligations of the corporation, whether now or hereafter authorized or created, may be issues, or may be reissued or transferred if the same have been reacquired and have treasury status, and any and all of such rights and options may be granted by the Board of Directors to such persons, firms, corporations and associations, and for such lawful consideration, and on such terms, as the Board of Directors in its discretion may determine, without first offering the same, or any thereof, to any said holder.

FIFTH: The governing board of the corporation shall be styled as a "Board of Directors", and any member of said Board shall be styled as a "Director."

The first Board of Directors of the corporation will consist of one member until such time as a greater number may be required by law. Upon organization of the corporation, there will be only one initial stockholder of record owning beneficially all of the outstanding shares of the corporation. The name and the post office address of the first member are as follows:

NAME	ADDRESS
Jack Tramiel	1294 Hidden Woods Drive Zepher Cove, Nevada 89448

The number of directors of the corporation may be increased or decreased in the manner provided in the Bylaws of the corporation; provided, that no decrease shall be to a number less than that permitted by law. In the interim between annual and special meetings of stockholders entitled to vote, all vacancies, including vacancies caused by an increase in the number of directors and including vacancies resulting from the removal of directors by the stockholders entitled to vote which are not filled by said stockholders, may be filled by the remaining directors, though less than a quorum.

SIXTH: No shares of capital stock of the corporation and no shares of stock without par value of the

corporation, as the case may be, shall, after the amount of the subscription price has been paid or after the par value of any shares of stock with par value which the corporation may be authorized to issue has been paid and/or after the consideration fixed by the Board of Directors for any shares of stock without par value which the corporation may be authorized to issue has been paid, be subject to assessment to pay the debts of the corporation. Any paid-up shares of stock of the corporation and any shares of stock of the corporation issued as fully paid up, whether with par value and/or without par value, shall not be assessable or assessed in any manner and for any cause.

SEVENTH: The name and the post office address of the incorporator signing these Articles of Incorporation are as follows:

NAME	ADDRESS
Frances A. Wrigley	521 Fifth Avenue New York, N.Y. 10175

EIGHTH: The corporation shall have perpetual existence.

NINTH: The holders of a majority of the outstanding shares of stock which have voting power shall constitute a quorum at a meeting of stockholders for the transaction of any business unless the action to be taken at the meeting shall require a greater proportion.

In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to fix the amount to be reserved as working capital over and above its paid-in capital stock, to authorize and cause to be executed, mortgages and liens upon the real and personal property of the corporation.

TENTH: The corporation shall, to the fullest extent permitted by the General Corporation Law of the State of Nevada, indemnify any and all persons whom it shall have power to indemnify under said Law from and against any and all of the expenses, liabilities, or other matters referred to in or covered by said Law, and the indemnification provided for herein shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any Bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity

while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of such a person. The corporation may purchase and maintain insurance on behalf of any such person against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability.

ELEVENTH: The corporation reserves the right to amend, alter, change, or repeal any provision contained in these Articles of Incorporation in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

IN WITNESS WHEREOF, I do hereby execute these Articles of Incorporation on May 16, 1984.

Frances A. Wrigley

STATE OF NEW YORK)
) SS.:
COUNTY OF NEW YORK)

On this 16th day of May, 1984, personally appeared before me, a Notary Public in and for the State and County aforesaid, Frances A. Wrigley, known to me to be the person described in and who executed the foregoing Articles of Incorporation, and who acknowledged to me that she executed the same freely and voluntarily and for the uses and purposes therein mentioned.

WITNESS my hand and official seal, the day and year first above written.

Notary Public

(Notarial Seal)

Exhibit 3.2

FILED
IN THE OFFICE OF THE
SECRETARY OF STATE OF THE
STATE OF NEVADA

JUL 11 1984

WAL SWACHHAMER - SECRETARY OF STATE

FILING FEE: $75.00
BY: CROWELL, CROWELL
CROWELL, BAKER
& SUSICH
ROOM #11
CROWELL BUILDING
402 NORTH CARSON
STREET
CARSON CITY,
NEVADA 89701

CERTIFICATE OF AMENDMENT OF ARTICLES OF INCORPORATION OF TRAMEL TECHNOLOGY LTD.

No. 3483-84 Pursuant to the provisions of Nevada Revised Statutes, Title 7, Chapter 78, the undersigned officers do hereby certify:

FIRST: The name of the Corporation is TRAMEL TECHNOLOGY LTD.

SECOND: The Board of Directors of the Corporation duly adopted the following resolutions on June 29, 1984:

RESOLVED, that it is advisable in the judgment of the Board of Directors of the Corporation that the name of the Corporation be changed, and the capital stock and the number of authorized shares with par value be increased, and that, in order to accomplish the same, the First Article and the Fourth Article of the Articles of Incorporation be amended to read as follows:

"FIRST: The name of the Corporation (hereinafter called the "Corporation") is ATARI, CORP."

The first paragraph of the Fourth Article shall be deleted in its entirety and replaced with the following language:

"FOURTH: The amount of the total authorized capital stock of the Corporation is seventy five million dollars, consisting of seventy five million shares of a par value of one dollar each. All of said shares are of one class and are designated as Common Stock."

FURTHER RESOLVED, that a special meeting of stockholders having voting power be and it is hereby called and that notice be given in the manner prescribed by the Bylaws of the Corporation and by Nevada Revised Statutes, Title 7, Chapter 78, unless the said stockholders shall waive the notice of the meeting in writing or unless all of said stockholders shall dispense with the holding of a meeting and shall take action upon the proposed amendments by a consent in writing signed by them; and,

FURTHER RESOLVED, that, in the event that the said stockholders shall adopt the aforesaid proposed amendments by a vote in favor thereof by at least a majority of the voting power or by a written consent in favor thereof signed by all of

them without a meeting, the Corporation is hereby authorized to make by the hands of its President (or a Vice President) and by its Secretary (or an Assistant Secretary) a certificate setting forth the said amendments and to cause the same to be filed pursuant to the provisions of Nevada Revised Statutes, Title 7, Chapter 78.

THIRD: The total number of outstanding shares having voting power of the corporation is one million (1,000,000), and the total number of votes to be cast by the holders of all of said outstanding shares is one million (1,000,000).

FOURTH: The holders of all of the aforesaid total number of outstanding shares having voting power, to wit, shares, dispensed with the holding of a meeting of stockholders and adopted the amendments herein certified by a consent in writing signed by all of them.

Signed on June 29, 1984.

TRAMEL TECHNOLOGY LTD.

By: _____
Title: President

By: Leonard I. Schreiber
Title: Secretary

State of California)
) SS.:
County of Santa Clara)

On June 29, 1984, personally appeared before me, a Notary Public, for the State and County aforesaid, Sam Tramiel, as President of TRAMEL TECHNOLOGY LTD., and Leonard I. Schreiber, as Secretary of TRAMEL TECHNOLOGY LTD., who acknowledged that they executed the above instrument.

OFFICIAL SEAL
NANCY R. HUNTER
NOTARY PUBLIC - CALIFORNIA
SANTA CLARA COUNTY
My Comm. Expires June 11, 1986

Nancy R. Hunter
Notary Public

Exhibit 3.3

FILED
IN THE OFFICE OF THE
SECRETARY OF STATE OF THE
STATE OF NEVADA

SEP 12 1986

WM. SWACKHAMER, SECRETARY OF STATE

No. 3483-84

Filing Fee: $50.00

CERTIFICATE OF AMENDMENT OF
ARTICLES OF INCORPORATION
OF
ATARI, CORP.

Pursuant to the provisions of Nevada Revised Statutes, Title 7, Chapter 78, the undersigned, Sam Tramiel and Garry Tramiel, do hereby certify:

1. They are the President and Secretary, respectively, of ATARI, CORP., a Nevada corporation.

2. The FIRST Article of the Articles of Incorporation of the Corporation shall be amended to read in full as follows:

"FIRST: The name of the corporation (hereinafter called the "corporation") is ATARI CORPORATION."

3. The first paragraph of the FOURTH Article of the Articles of Incorporation of the Corporation is deleted in its entirety and replaced with the following language:

"FOURTH: The corporation is authorized to issue two classes of shares of stock, to be designated, respectively, as "Common Stock" and "Preferred Stock". The total number of authorized shares of stock which the corporation may issue is one hundred and ten million (110,000,000), of which one hundred million (100,000,000) shares shall be shares of Common Stock, of a par value of one cent ($.01) each, and ten million (10,000,000) shares shall be shares of Preferred Stock, of a par value of one cent ($.01) each.

The Preferred Stock may be divided into such number of series as the Board of Directors may determine. The Board of Directors is authorized to fix the number of shares of any series of Preferred Stock and to determine the designation of such series. The Board of Directors is also authorized to determine and alter the rights, preferences, privileges and restrictions granted to and imposed upon any wholly unissued series of

Preferred Stock. The Board of Directors, within the limits and restrictions stated in any resolution or resolutions of the Board of Directors originally fixing the number of shares constituting any series, may increase or decrease (but not below the number of shares of such series then outstanding) the number of shares of any series subsequent to the issue of shares of that series.

Upon the amendment of this Article FOURTH to read as herein set forth, each outstanding share of Common Stock is combined and converted into one-half share of Common Stock."

4. Except as expressly modified by the foregoing amendments, the Articles of Incorporation of this Corporation, as filed with the Secretary of State of the State of Nevada on May 17, 1984 and amended by the Certificate of Amendment filed with such Secretary of State on July 11, 1984, remain unaltered and in full force and effect.

5. The foregoing amendments were approved by resolutions duly adopted by the Board of Directors of the Corporation on September 8, 1986, which resolutions declared the advisability of such amendments, directed that such amendments be submitted to the vote of the stockholders of the Corporation entitled to vote thereon, and authorized the preparation and filing of this Certificate by the undersigned officers upon obtaining the requisite vote of the stockholders of this Corporation.

6. The foregoing amendments were duly approved by the required vote of the stockholders of the Corporation; the Corporation has only one class of stock and 33,324,700 shares of such class are outstanding; a majority vote of such shares was required for approval of the amendments; and 28,223,819 shares of such stock, constituting a majority of such outstanding shares, were voted in favor of the amendments on September 8, 1986 by the written consent of the stockholders holding such shares.

Executed on:
September 11th 1986

ATARI, CORP.

By: _____
Name & Title: Sam Tramiel, President

By: Garry Tramiel
Name & Title: Garry Tramiel, Secretary

State of California)
) SS:
County of Santa Clara)

On 9/11/86, personally appeared before me, a Notary Public for the State and County aforesaid, Sam Tramiel, and Garry Tramiel, personally known to me or proved to me on the basis of satisfactory evidence to be the persons whose names are subscribed to the above instrument and acknowledged to me that they executed the above instrument.

Deborah W. Brown
Notary Public

OFFICIAL SEAL
DEBORAH W. BROWN
Notary Public-California
SANTA CLARA COUNTY
My Comm. Exp. Feb. 10, 1989

Exhibit 3.4

BYLAWS

OF

TRAMEL TECHNOLOGY, LTD.

(a Nevada corporation)

ARTICLE I

STOCKHOLDERS

1. CERTIFICATES REPRESENTING STOCK. Every holder of stock in the corporation shall be entitled to have a certificate signed by, or in the name of, the corporation by the Chairman or Vice-Chairman of the Board of Directors, if any, or by the President or a Vice-President and by the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary of the corporation or by agents designated by the Board of Directors, certifying the number of shares owned by him in the corporation and setting forth any additional statements that may be required by the General Corporation Law of Nevada. If any such certificate is countersigned or otherwise authenticated by a transfer agent or transfer clerk or by a registrar other than the corporation, a facsimile of the signature of any such officers or agents designated by the Board may be printed or lithographed upon such certificate in lieu of the actual signatures. In case any officer or officers who shall have signed, or whose facsimile signature or signatures shall have been used on, any such certificate or certificates shall cease to be such officer or officers of the corporation before such certificate or certificates shall have been delivered by the corporation, such certificate or certificates may nevertheless be adopted by the corporation and be issued and delivered as though the person or persons who signed such certificate or certificates, or whose facsimile signature or signatures shall have been used thereon, had not ceased to be such officer or officers of the corporation.

Whenever the corporation shall be authorized to issue more than one class of stock or more than one series of any class of stock, and whenever the corporation shall issue any shares of special stock, the certificates representing shares of any such class or series or of any such special stock shall set forth thereon the statements

prescribed by the General Corporation Law. Any restrictions on the transfer or registration of transfer of any shares of stock of any class or series shall be noted conspicuously on the certificate representing such shares.

The corporation may issue a new certificate of stock in place of any certificate theretofore issued by it, alleged to have been lost, stolen, or destroyed, and the Board of Directors may require the owner of any lost, stolen, or destroyed certificate, or his legal representative, to give the corporation a bond sufficient to indemnify the corporation against any claim that may be made against it on account of the alleged loss, theft, or destruction of any such certificate or the issuance of any such new certificate.

2. FRACTIONAL SHARE INTERESTS. The corporation shall not be obliged to but may execute and deliver a certificate for or including a fraction of a share. In lieu of executing and delivering a certificate for a fraction of a share, the corporation may pay to any person otherwise entitled to become a holder of a fraction of a share an amount in cash specified for such purpose as the value thereof in the resolution of the Board of Directors, or other instrument pursuant to which such fractional share would otherwise be issued, or, if not specified therein, then as may be determined for such purpose by the Board of Directors of the issuing corporation; or may execute and deliver registered or bearer scrip over the manual or facsimile signature of an officer of the corporation or of its agent for that purpose, exchangeable as therein provided for full share certificates, but such scrip shall not entitle the holder to any rights as a stockholder except as therein provided. Such scrip may provide that it shall become void unless the rights of the holders are exercised within a specified period and may contain any other provisions or conditions that the corporation shall deem advisable. Whenever any such scrip shall cease to be exchangeable for full share certificates, the shares that would otherwise have been issuable as therein provided shall be deemed to be treasury shares unless the scrip shall contain other provision for their disposition.

3. STOCK TRANSFERS. Upon compliance with provisions restricting the transfer or registration of transfer of shares of stock, if any, transfers or registration of transfers of shares of stock of the corporation shall be made only on the stock ledger of the corporation by the registered holder thereof, or by his

attorney thereunto authorized by power of attorney duly executed and filed with the Secretary of the corporation or with a transfer agent or a registrar, if any, and on surrender of the certificate or certificates for such shares of stock properly endorsed and the payment of all taxes, if any, due thereon.

4. RECORD DATE FOR STOCKHOLDERS. For the purpose of determining the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or the allotment of any rights, or entitled to exercise any rights in respect of any change, conversion, or exchange of stock or for the purpose of any other lawful action, the directors may fix, in advance, a record date, which shall not be more than sixty days nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. If no record date is fixed, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held; the record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is necessary, shall be the day on which the first written consent is expressed; and the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto. A determination of stockholders of record entitled to notice of or to vote at any meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

5. MEANING OF CERTAIN TERMS. As used in these Bylaws in respect of the right to notice of a meeting of stockholders or a waiver thereof or to participate or vote thereat or to consent or dissent in writing in lieu of a meeting, as the case may be, the term "share" or "shares" or "share of stock" or "shares of stock" or "stockholder" or "stockholders" refers to an outstanding share or shares of stock and to a holder or holders of record of outstanding shares of stock when the corporation is authorized to issue only one class of shares of stock, and said reference is

also intended to include any outstanding share or shares of stock and any holder or holders of record of outstanding shares of stock of any class upon which or upon whom the Articles of Incorporation confers such rights where there are two or more classes or series of shares of stock or upon which or upon whom the General Corporation Law confers such rights notwithstanding that the articles of incorporation may provide for more than one class or series of shares of stock, one or more of which are limited or denied such rights thereunder; provided, however, that no such right shall vest in the event of an increase or a decrease in the authorized number of shares of stock of any class or series which is otherwise denied voting rights under the provisions of the Articles of Incorporation.

6. STOCKHOLDER MEETINGS.

- TIME. The annual meeting shall be held on the date and at the time fixed, from time to time, by the directors, provided, that the first annual meeting shall be held on a date within thirteen months after the organization of the corporation, and each successive annual meeting shall be held on a date within thirteen months after the date of the preceding annual meeting. A special meeting shall be held on the date and at the time fixed by the directors.

- PLACE. Annual meetings and special meetings shall be held at such place, within or without the State of Nevada, as the directors may, from time to time, fix. Whenever the directors shall fail to fix such place, the meeting shall be held at the principal office of the corporation in the State of Nevada.

- CALL. Annual meetings and special meetings may be called by the directors or by any officer instructed by the directors to call the meeting.

- NOTICE OR WAIVER OF NOTICE. Notice of all meetings shall be in writing and signed by the President or a Vice-President, or the Secretary, or an Assistant Secretary, or by such other person or persons as the directors shall designate. Such notice shall state the purpose or purposes for which the meeting is called and the time when, and the place, where it is to be held. A copy of such notice shall be either delivered personally to, or shall be mailed postage prepaid, to each stockholder not less than ten nor more than sixty days before such meeting. If mailed, it shall be directed to a stockholder at his address as it appears upon the records of the corporation.

Any stockholder may waive notice of any meeting by a writing signed by him, or his duly authorized attorney, either before or after the meeting; and whenever notice of any kind is required to be given under the provisions of the General Corporation Law, a waiver thereof in writing and duly signed whether before or after the time stated therein, shall be deemed equivalent thereto.

- CONDUCT OF MEETING. Meetings of the stockholders shall be presided over by one of the following officers in the order of seniority and if present and acting - the Chairman of the Board, if any, the Vice-Chairman of the Board, if any, the President, a Vice-President, or, if none of the foregoing is in office and present and acting, by a chairman to be chosen by the stockholders. The Secretary of the corporation, or in his absence, an Assistant Secretary, shall act as secretary of every meeting, but if neither the Secretary nor an Assistant Secretary is present the Chairman of the meeting shall appoint a secretary of the meeting.

- PROXY REPRESENTATION. Every stockholder may authorize another person or persons to act for him by proxy appointed by an instrument in writing in all matters in which a stockholder is entitled to participate, whether by voting or participating at a meeting, or expressing consent or dissent without a meeting. Every proxy must be executed by the stockholder or by his attorney-in-fact. No proxy shall be valid after the expiration of six months from the date of its execution, unless coupled with an interest or unless it specifies therein the length of time for which it is to continue in force, which in no case shall exceed seven years from the date of its execution.

- INSPECTORS. The directors, in advance of any meeting, may, but need not, appoint one or more inspectors of election to act at the meeting or any adjournment thereof. If an inspector or inspectors are not appointed, the person presiding at the meeting may, but need not, appoint one or more inspectors. In case any person who may be appointed as an inspector fails to appear or act, the vacancy may be filled by appointment made by the directors in advance of the meeting or at the meeting by the person presiding thereat. Each inspector, if any, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his ability. The inspectors, if any, shall determine the number of shares of stock outstanding and the voting power

of each, the shares of stock represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes, ballots or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the result, and do such acts as are proper to conduct the election or vote with fairness to all stockholders. On request of the person presiding at the meeting, the inspector or inspectors, if any, shall make a report in writing of any challenge, question or matter determined by him or them and execute a certificate of any fact found by him or them.

- QUORUM. The holders of a majority of the outstanding shares of stock or of the voting power, as the case may be, shall constitute a quorum at a meeting of stockholders for the transaction of any business unless the action to be taken at the meeting shall require a greater proportion. The stockholders present may adjourn the meeting despite the absence of a quorum.

- VOTING. Each share of stock shall entitle the holder thereof to one vote. In the election of directors, a plurality of the votes cast shall elect. Any other action shall be authorized by a majority of the votes cast except where the General Corporation Law, the Articles of Incorporation, or these Bylaws prescribe a different percentage of votes and/or a different exercise of voting power. In the election of directors, voting need not be by ballot; and, except as otherwise may be provided by the General Corporation Law, voting by ballot shall not be required for any other action.

7. STOCKHOLDER ACTION WITHOUT MEETINGS. Any action, except the election of directors, and except as may otherwise be provided by the General Corporation Law, which may be taken by the vote of stockholders at a meeting, may be taken without a meeting if authorized by the written consent of stockholders holding at least a majority of the voting power; provided that if any greater proportion of voting power is required for such action at a meeting, then such greater proportion of written consents shall be required. In no instance where action is authorized by written consent need a meeting of stockholders be called or noticed.

ARTICLE II

DIRECTORS

1. FUNCTIONS AND DEFINITION. The business and affairs of the corporation shall be managed by the Board of Directors of the corporation. The Board of Directors shall have authority to fix the compensation of the members thereof for services in any capacity. The use of the phrase "whole Board" herein refers to the total number of directors which the corporation would have if there were no vacancies.

2. QUALIFICATIONS AND NUMBER. Each director must be at least 18 years of age. A director need not be a stockholder or a resident of the State of Nevada. The initial Board of Directors shall consist of one person. Thereafter the number of directors constituting the whole board shall be at least three, except that, in cases where all the shares of the corporation are owned beneficially and of record by either one or two stockholders, the number of directors may be less than three but not less than the number of such stockholders. Subject to the foregoing limitation and except for the first Board of Directors, such number may be fixed from time to time by action of the stockholders or of the directors, or, if the number is not fixed, the number shall be one. The number of directors may be increased or decreased by action of the stockholders or of the directors.

3. ELECTION AND TERM. The first Board of Directors shall hold office until the first annual meeting of stockholders and until their successors are elected and qualified or until their earlier resignation or removal. Any director may resign at any time upon written notice to the corporation. Thereafter, directors who are elected at an annual meeting of stockholders, and directors who are elected in the interim to fill vacancies and newly created directorships, shall hold office until the next annual meeting of stockholders and until their successors are elected and qualified or until their earlier resignation or removal. In the interim between annual meetings of stockholders or of special meetings of stockholders called for the election of directors and/or for the removal of one or more directors and for the filling of any vacancy in that connection, newly created directorships and any vacancies in the Board of Directors, including any vacancies resulting from the removal of directors for cause or without cause by the stockholders and not filled by said stockholders, may be

filled by the vote of a majority of the remaining directors then in office, although less than a quorum, or by the sole remaining director.

4. MEETINGS.

- TIME. Meetings shall be held at such time as the Board shall fix, except that the first meeting of a newly elected Board shall be held as soon after its election as the directors may conveniently assemble.

- PLACE. Meetings shall be held at such place within or without the State of Nevada as shall be fixed by the Board.

- CALL. No call shall be required for regular meetings for which the time and place have been fixed. Special meetings may be called by or at the direction of the Chairman of the Board, if any, the Vice-Chairman of the Board, if any, of the President, or of a majority of the directors in office.

- NOTICE OR ACTUAL OR CONSTUCTIVE WAIVER. No notice shall be required for regular meetings for which the time and place have been fixed. Written, oral, or any other mode of notice of the time and place shall be given for special meetings in sufficient time for the convenient assembly of the directors thereat. Notice if any need not be given to a director or to any member of a committee of directors who submits a written waiver of notice signed by him before or after the time stated therein.

- QUORUM AND ACTION. A majority of the whole Board shall constitute a quorum except when a vacancy or vacancies prevents such majority, whereupon a majority of the directors in office shall constitute a quorum, provided, that such majority shall constitute at least one-third of the whole Board. A majority of the directors present, whether or not a quorum is present, may adjourn a meeting to another time and place. Except as the Articles of Incorporation or these Bylaws may otherwise provide, and except as otherwise provided by the General Corporation Law, the act of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board. The quorum and voting provisions herein stated shall not be construed as conflicting with any provisions of the General Corporation Law and these Bylaws which govern a meeting of directors held to fill vacancies and newly created

directorships in the Board or action of disinterested directors.

Members of the Board or of any committee which may be designated by the Board may participate in a meeting of the Board or of any such committee, as the case may be, by means of a conference telephone network or a similar communications method by which all persons participating in the meeting hear each other. Participation in a meeting by said means shall constitute presence in person at any such meeting. Each person participating in a meeting by such means shall sign the minutes thereof.

- CHAIRMAN OF THE MEETING. The Chairman of the Board, if any and if present and acting, shall preside at all meetings. Otherwise, the Vice-Chairman of the Board, if any and if present and acting, or the President, if present and acting, or any other director chosen by the Board, shall preside.

5. REMOVAL OF DIRECTORS. Any or all of the directors may be removed for cause or without cause by the holders of at least two thirds of the outstanding stock of the corporation. One or more of the directors may be removed for cause by the Board of Directors.

6. COMMITTEES. Whenever its number consists of two or more, the Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of one or more of the directors of the corporation and each committee to have such powers and duties as the Board shall determine. Any such committee, to the extent provided in the resolution or resolutions of the Board, shall have and may exercise the powers and authority of the Board of Directors in the management of the business and affairs of the corporation and may authorize the seal or stamp of the corporation to be affixed to all papers on which the corporation desires to place a seal or stamp.

7. WRITTEN ACTION. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if a written consent thereto is signed by all the members of the Board or committee, as the case may be.

ARTICLE III

OFFICERS

1. The corporation shall have a President, a Secretary, a Treasurer, a Resident Agent, and, if deemed necessary, expedient, or desirable by the Board of Directors, a Chairman of the Board, a Vice-Chairman of the Board, an Executive Vice-President, one or more other Vice-Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers, and such other officers, agents and factors with such titles as the resolution choosing them shall designate. Each of any such officers, agents, and factors shall be chosen by the Board of Directors or chosen in the manner determined by the Board of Directors.

2. QUALIFICATIONS. Except as may otherwise be provided in the resolution choosing him, no officer other than the Chairman of the Board, if any, and the Vice-Chairman of the Board, if any, need be a director.

Any two or more offices may be held by the same person, as the directors may determine.

3. TERM OF OFFICE. Unless otherwise provided in the resolution choosing him, each officer, except the Resident Agent, shall be chosen for a term which shall continue until the meeting of the Board of Directors following the next annual meeting of stockholders and until his successor shall have been chosen and qualified. The Resident Agent shall serve until his or its successor shall have been chosen and qualified.

Any officer may be removed, with or without cause, by the Board of Directors or in the manner determined by the Board.

Any vacancy in any office may be filled by the Board of Directors or in the manner determined by the Board.

4. DUTIES AND AUTHORITY. All officers of the corporation shall have such authority and perform such duties in the management and operation of the corporation as shall be prescribed in the resolution designating and choosing such officers and prescribing their authority and duties, and shall have such additional authority and duties as are incident to their office except to the extent that such resolutions or instruments may be inconsistent therewith.

ARTICLE IV

PRINCIPAL OFFICE - RESIDENT AGENT - RECORDS

The location of the initial principal office of the corporation in the State of Nevada is set forth in the original Articles of Incorporation of the corporation; and the name of the initial resident agent of the corporation in charge of said principal office is The Prentice-Hall Corporation System, Nevada, Inc.

The corporation shall maintain at said principal office a copy of its Articles of Incorporation, and all amendments thereto, and a copy of these Bylaws, and all amendments thereto, as certified by the Secretary of the corporation. The corporation shall also keep at said principal office a stock ledger or a duplicate stock ledger, revised annually, containing the names, alphabetically arranged, of all persons who are stockholders of the corporation, showing their places of residence, if known, and the number of shares held by them respectively or a statement setting out the name of the custodian of the stock ledger or duplicate stock ledger, and the present and complete post office address, including street and number, if any, where such stock ledger or duplicate stock ledger is kept.

ARTICLE V

CORPORATE SEAL OR STAMP

The corporate seal or stamp shall be in such form as the Board of Directors may prescribe.

ARTICLE VI

FISCAL YEAR

The fiscal year of the corporation shall be fixed, and shall be subject to change, by the Board of Directors.

ARTICLE VII

CONTROL OVER BYLAWS

The power to amend, alter, and repeal these Bylaws and to make new Bylaws shall be vested in the Board of

Directors subject to the Bylaws, if any, of the stockholders.

I HEREBY CERTIFY that the foregoing is a full, true and correct copy of the Bylaws of TRAMEL TECHNOLOGY, LTD., a Nevada corporation, as in effect on the date hereof.

WITNESS my hand and the seal or stamp of the corporation.

Dated:

Gary Tramel

~~Assistant~~ Secretary of
TRAMEL TECHNOLOGY, LTD.

(SEAL)

Exhibit 10.1

DRAFT 4

OEM SOFTWARE LICENSE AGREEMENT

BETWEEN

DIGITAL RESEARCH (CALIFORNIA) INC.
("DRI")

and

ATARI, CORP.
"LICENSEE"

August 22, 1984

Agreement Number_____

OEM SOFTWARE LICENSE AGREEMENT

Digital Research (California) Inc. ("DRI") a California corporation, with offices at 160 Central Avenue, Pacific Grove, California 93950 agrees to grant and Atari, Corp. ("Licensee") a Nevada corporation with offices at 1265 Borregas, Sunnyvale, California 94086 agrees to accept nonexclusive, nontransferable worldwide Licenses to Use, reproduce and distribute Licensed Programs subject to the terms and conditions of this Agreement. Such Licenses shall be effective when a SUPPLEMENT to this Agreement or an Amendment incorporating SUPPLEMENT(s) (hereinafter referred to as "SUPPLEMENT") for each Licensed Program is executed by DRI. Any additional terms and conditions which this Agreement states are to be specified by DRI for a Licensed Program will be designated in the applicable SUPPLEMENT.

1. DEFINITIONS

In this Agreement, the terms:

"License" means the nonexclusive, nontransferable right of the Licensee to Use, reproduce and distribute the Licensed Program subject to the provisions of this Agreement.

"Licensed Program" means DRI's computer programs including machine-readable code, intermediate code or interpreted form specified in a SUPPLEMENT and all corrections, modifications, and enhancements to such program made by DRI and provided hereunder. Licensed Program does not include Source Code. The list of Licensed Programs in SUPPLEMENT A shall be amended by DRI from time to time to specify new OEM systems software Products defined as Operating Systems, Programmer Support Utilities, Development Languages, and User Interfaces then generally available from DRI under this Agreement, as well as Product deletions. Notwithstanding the foregoing, any new applications developed by DRI shall not be included in this Agreement as a Licensed Program. Product deletions shall be for the purpose of indicating termination of DRI support, however, and Licensee shall continue to have other license rights hereunder to such Products.

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"Release" of a Licensed Program refers to the number prior to decimal point of a Licensed Program identification number. "Version" of a Licensed Program refers to the number after the decimal point of a Licensed Program identification number. For example, PL/I 1.4 is Release 1, Version 4 of the PL/I Program.

"Registration Card" means the form attached as an EXHIBIT or other DRI-approved registration form by which an end user licensee registers a Licensed Program.

"OEM Redistribution Kit" means a Licensed Program and Documentation deliverables that are shipped to Licensee for each Licensed Program as specified in a SUPPLEMENT.

"Software Redistribution Guide" means the informational guide supplied with each OEM Redistribution Kit which specifies DRI's requirements regarding reproduction, serialization and distribution of the Product.

"Object Code" means the form of a Licensed Program resulting from the translation or processing of Source Code by a computer into machine language or intermediate code, and thus is in a form that would not be convenient to human understanding of the program logic, but which is appropriate for execution or interpretation by a computer.

"Source Code" means a form of a Licensed Program in which the program logic is easily deduced by a human being, such as a printed listing of the program, or in an encoded machine-readable form, such as might be recorded on magnetic tape or disk, from which a printed listing can be made by processing it with a computer.

"Derivative Works" means a revision, modification, translation, abridgement, condensation or expansion of a Product or any other form in which such Product may be recast, transferred or adapted, which if prepared without the consent of DRI would constitute a copyright infringement.

2. LICENSE.

2.1 DRI grants Licensee a nonexclusive, nontransferable worldwide license during the term hereof to reproduce and distribute each Licensed Program solely for Use on a Defined Computer and solely as implemented to operate under a specific implementation of the CP/M-68K operating system and subject to the provisions of the applicable

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2.2 Unless Source Code is specified for delivery for a particular Licensed Program in a SUPPLEMENT, Licensee shall have no rights to Source Code to any Licensed Program and Licensee shall not disassemble, reverse assemble or reverse compile such Licensed Program. If Source Code is specified for delivery in a SUPPLEMENT for any Licensed Program, Licensee is granted a nonexclusive, nontransferable license, without right to sublicense, to Use the Source Code for such Licensed Program for Licensee's internal use only, for the sole purpose of maintaining and supporting the Licensed Programs distributed to end users, and for creating Derivative Works as outlined in Paragraph 2.3 below. Licensee agrees that the Source Code is DRI Confidential Information which shall be treated in accordance with Section 12 and shall be used only Licensee's offices in Sunnyvale, California and at such other locations as may be designated in writing to DRI by Licensee. Licensee is granted the right to make one (1) archival or backup copy of the machine-readable Source Code, if licensed. However, Licensee may not reproduce the printed Source Code under any circumstances.

2.3 Licensee may create Derivative Works for those Licensed Programs for which Licensee has acquired Source Code but rights in the original Source and Object Code of the Licensed Program shall remain with DRI. DRI shall not be responsible for any support or maintenance of any Derivative Works. All Derivative Works shall be subject to the License set forth in Paragraph 2.1, except that Licensee shall have a sole license during the term of this Agreement to distribute such Derivative Works in Object Code form only. Licensee shall promptly register with the U.S. Copyright Office, in the joint names of DRI and Licensee, all Derivative Works, as a derivative work based upon DRI copyrighted material. Distribution of Derivative Works shall be subject to compliance with the requirements set forth in the Software Redistribution Guide with regard to copyrights, trade names and trademarks. Upon termination of this Agreement, all rights to Derivative Works shall vest in DRI. In such latter event, Licensee shall cooperate and take such actions as DRI may reasonably request to assign all rights in and to Derivative Works to DRI.

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Licensee's name as though an end user copy, and shall count in any royalty or quantity limitation under this Agreement.

2.5 No license is granted for any use or reproduction of any Product for which the required payment has not been made by Licensee or Licensee's end users.

2.6 Licensee shall ensure that any Licensed Program or Documentation shall be distributed to end users only in a form as implemented in accordance with paragraph 2.1 above. Licensee may make Defined Computer specific BIOS or XIOS implementations necessary for the operation of a Licensed Program operating system on a Defined Computer. All rights and title to such Defined Computer specific BIOS, XIOS, LIOS or other implementations shall belong to Licensee. Nothing herein shall prevent DRI from creating, using and distributing any microprocessor based XIOS, BIOS, LIOS or any other implementations for the Licensed Programs.

2.7 The term of the license granted hereunder shall be three (3) years from the date of first customer shipment of any Defined Computer or June 1, 1985, whichever first occurs. From time to time DRI and Licensee may enter into separate agreements for the implementation or modification of Licensed Programs. Unless otherwise specified, the terms and conditions of this Agreement shall apply to such modifications and enhancements.

3. DELIVERY.

3.1 Upon receipt and execution of this Agreement and a SUPPLEMENT hereto, DRI agrees to deliver the Product specified in the SUPPLEMENT. All deliveries of any Products under this Agreement shall be fob destination.

4. PAYMENT; TAXES

4.1 All payments provided for in this Agreement are net and Licensee shall pay all taxes, customs duties, insurance, shipping and other charges. All payments shall be made in United States currency only.

4.2 All payments by Licensee to DRI shall be due as specified in a SUPPLEMENT. Payments required as a result of maintenance of the records required by Section 5.1 hereof, shall be due within thirty (30) days after the end of each calendar month for copies of any Licensed Program distributed by Licensee during such calendar month. In no event shall Licensee be entitled to a refund of prepaid royalties nor shall Licensee be relieved from any guaranteed minimum payment obligation, which obligations shall survive any termination of this Agreement. Any delay in the delivery of Source Code or Camera Ready Copy for Documentation, if applicable, shall not constitute a reason for delay of payment under this Agreement.

4.3 If any payment, or any other sum due from Licensee under this Agreement, should become past due, DRI may, without declaring Licensee to be in default, charge Licensee a late payment charge of one and one-half percent (1.5%) per month on the past due balance, but not in excess of the lawful maximum.

4.4 Licensee shall pay or reimburse DRI for amounts equal to any taxes, other duties, tax penalties, or amounts in lieu thereof however designated, now or hereafter levied or based on payments due under this Agreement, any license granted hereunder, the transfer, use or distribution of Licensed Programs, or on the program storage media, exclusive of taxes based upon DRI's net income. In lieu thereof, Licensee shall provide to DRI a tax or other levy exemption certificate acceptable to the taxing or levying authority.

5. RECORD KEEPING AND REPORTS.

5.1 This Section 5 shall apply only toward a) any Licensed Programs added hereunder for which DRI must pay royalties to a third party; or b) any period of time after the initial three (3) year term hereof as specified in Section 2.7 above.

5.2 Licensee agrees to maintain shipment records relating to Products in the manner specified in the Software Redistribution Guide. Licensee shall prepare and submit monthly reports to DRI no later than thirty (30) days following the last business day of each calendar month which reports must specify the types and quantities and blocks of serial numbers of any Product shipped during that month.

5.3 Licensee agrees to allow DRI's independent auditors to audit and analyze appropriate accounting records of Licensee to ensure compliance with all terms of this Agreement. Any such audit shall be permitted by Licensee within fifteen (15) days of Licensee's receipt of DRI's written request to audit, during normal business hours, at a mutually agreed upon time. The cost of such an audit will be borne by DRI unless a material discrepancy indicating inadequate record keeping or that additional license fees are due to DRI is discovered, in which case the cost of the audit shall be borne by Licensee. A discrepancy shall be deemed material if it involves payment or adjustment of more than One Thousand Dollars ($1,000.00) in favor of DRI. Audits shall not interfere unreasonably with Licensee's business activities.

6. TRADEMARKS; COPYRIGHT NOTICES

6.1 The trademarks and trade names under which DRI markets any Product are the property of DRI. This Agreement gives Licensee no rights therein, except the restricted license to reproduce such trademarks and trade names in any authorized reproduction of any Product, provided that DRI is referenced as the owner of the trade name or trademark, as specified in the Software Redistribution Guide. Licensee may not market the

Product under any other or different name than those specified by DRI, except that Licensee may add its name to the Product title, by DRI, for example: "The XYZ Computer CP/M® Operating System." No other modification or supplementation of the names is authorized.

6.2 Licensee agrees to maintain and respect the trademark, trade name and copyright notices of any Licensed Program and Documentation in connection with its advertisement and, distribution of any Product. Licensee shall request and use best efforts to insure compliance hereto by all Licensee's distributors and dealers. Copyright notices placed by Licensee shall read as specified in the DRI Software Redistribution Guide. DRI retains the right to specify the reasonable quality and standards of all materials upon which a DRI trademark or trade name is used. Failure by Licensee to adhere to such reasonable standards of quality after consultation with DRI and opportunity by Atari to correct shall be grounds for DRI to terminate Licensee's right to use of such trademark or trade name.

7. LICENSED PROGRAM REPRODUCTION; SERIALIZATION

7.1 Licensee is authorized to reproduce the Licensed Program only at Licensee's offices in Sunnyvale, California and at such other locations as may be specified in writing to DRI. No subsidiary or affiliate of Licensee shall have any right to reproduce the Licensed Program.

7.2 Licensee agrees to consecutively serialize each copy of a Licensed Program in both machine readable and human readable form, as specified in the Software Redistribution Guide using DRI's proprietary serialization program format and using Licensee's origin number which will be assigned by DRI.

8. DOCUMENTATION

8.1 Licensee may purchase from DRI Documentation at the price set forth in DRI's then current published OEM Price List. Licensee may imprint or sticker the Documentation with Licensee's name and address, in addition to that of DRI.

8.2 Unless otherwise specified in a SUPPLEMENT, if Documentation reprint rights are purchased, Licensee may reproduce the existing version or a modified version of the Documentation in any language in accordance with the Software Redistribution Guide. Licensee shall promptly furnish DRI with a copy of, and promptly register with the U. S. Copyright Office, in the joint names of DRI and Licensee, all translated or modified versions of the Documentation, as a derivative work based upon the original DRI copyrighted material. Licensee shall copyright all translations of the Documentation in the joint names of DRI and Licensee in every country in which it is published. Licensee shall, at its cost, file or register such copyrights where required to obtain protection in a particular country. DRI shall have a nonexclusive right to all modified

versions of the Documentation. Upon termination of this Agreement, all rights to modified versions of Documentation shall vest in DRI. In such latter event, Licensee shall cooperate and take such actions as DRI may reasonably request to assign all rights in and to modified versions of Documentation to DRI.

9. DISTRIBUTION; EXPORT RESTRICTIONS

9.1 Licensee shall include a copy of an end user license agreement affording no less protection of the Licensed Programs and creating no greater liability to DRI than the DRI End User License Agreement and shall also include a Registration Card with each copy of any Licensed Program distributed, as specified in the Software Redistribution Guide. Licensee shall use its best efforts to obtain either directly or through its distribution channels, the signature of the end user on the Registration Card and to cause the prompt return of the Registration Cards to DRI, or to Licensee if designated in a SUPPLEMENT.

9.2 Licensee shall take all reasonable steps to insure that each intermediate entity in its chain of distribution to the final end user respects DRI's copyrights, trade names and trademarks, complies with the Product handling and licensing requirements of this Agreement, and makes no unauthorized copies of DRI Products.

9.3 End users may use the Licensed Program for the term and in the manner provided for in the End User License Agreement. End user rights and obligations set forth therein will survive any termination of the relationship between Licensee and DRI.

9.4 Licensee warrants to DRI that Licensee will do all things necessary to comply with United States export laws and regulations as they apply to Licensed Programs, Documentation, Products, Source Code and all other things delivered to, or derived from things delivered to, Licensee under this Agreement (all and any part of such things collectively referred to as Technical Data).

9.5 Licensee warrants and hereby gives written assurance to DRI that neither the Technical Data or any portion thereof, nor any direct products (including processes or services) of the Technical Data will be shipped directly or indirectly, to Afghanistan, the Peoples Republic of China or to any country listed in the Country Groups Q, S, W, Y or Z, now or hereafter specified in Supplement No. 1 to Section 370 of the Export Administration Regulations issued by the U.S. Department of Commerce, except when such shipment is authorized by the United States Department of Commerce, Office of Export Administration.

9.6 Licensee warrants and hereby gives written assurance to DRI that no Technical Data shall be exported or reexported to the Republic of South Africa or Namibia if the Technical Data or any products of the Technical Data including the direct product and including processes and services of the data and any subsequent

products of the direct product, are for delivery, directly or indirectly, to or for use by or for military or police entities in these destinations or for use in servicing equipment owned, controlled or used by or for such entities and that any Technical Data that is exported or reexported to the Republic of South Africa or Namibia shall be accompanied by a written notice to the consignee that the direct product (including process and services) of the data may not be sold or otherwise made available directly or indirectly to the military or police entities in these destinations.

9.7 Licensee, prior to any export, shall obligate with a written instrument Licensee's dealers, distributors and any other persons who, pursuant directly or indirectly to this Agreement, are to receive Technical Data and/or any direct products of the Technical Data; said written instrument will include written assurances of the type set forth in Paragraphs 9.4 through 9.6 and any other provisions necessary for full compliance with the export laws and regulations of the United States.

10. PATENT AND COPYRIGHT INDEMNIFICATION

10.1 DRI will defend any action brought against the Licensee to the extent that it is based upon a claim that a Licensed Program, furnished hereunder and used within the scope of a License granted hereunder, infringes a United States copyright or patent. DRI will pay resulting costs, damages and legal fees finally awarded against the Licensee in such action which are attributable to such claim provided that (1) the Licensee notifies DRI promptly in writing of any claim and (2) DRI has sole control of the defense of any such claim and all related settlement negotiations.

10.2 Should the Licensed Program become, or be likely to become, in DRI's opinion, the subject of a claim of infringement of such copyright or patent, DRI may procure for the Licensee the right to continue using the Licensed Program, or replace or modify it to make it non-infringing. DRI shall have no liability for, and Licensee shall indemnify and hold DRI harmless from and against any claim based upon (1) Use of other than a current unaltered release of the Licensed Program or (2) Use, operation or combination of the Licensed Program with non-DRI programs or data if such infringement would have been avoided but for such Use, operation or combination. The foregoing states the entire liability of DRI with respect to infringement of copyrights or patents.

11. WARRANTY; SUPPORT; MAINTENANCE.

11.1 DRI warrants only to Licensee that any unaltered Licensed Programs described in a SUPPLEMENT will substantially conform to the specifications in the published Documentation for such Licensed Programs in effect when Licensed Programs are shipped to Licensee. If Licensee finds what it believes to be errors or a failure of the Licensed Programs to meet

specifications which significantly affect performance, and provides DRI with a written report, DRI will use reasonable efforts to correct promptly, at no cost to Licensee, any such errors or failures. This is Licensee's sole and exclusive remedy for any express or implied warranties hereunder other than the warranty against infringement specified in Section 10 hereof. DRI's warranty and obligation shall extend for a period of six (6) months from the date DRI first delivers the Licensed Program to Licensee. DRI's warranty and obligation is solely for the benefit of Licensee, who has no authority to extend this warranty to any other person or entity. DRI MAKES NO WARRANTY THAT ALL ERRORS OR FAILURES WILL BE CORRECTED.

11.2 DRI agrees to make available to Licensee, for a period of six (6) months from the date DRI first delivers the Licensed Program to Licensee, DRI's current OEM Support services consisting of: verbal and written communication regarding problems and technical advice; a product reference book for each DRI Licensed Program; regular updates to the product reference book; and development support assistance for BIOS/XIOS modifications in the form of general instructions on how Licensee debugs the Licensed Program and clarification of Documentation. Support services under this Paragraph 11.2 will automatically be extended, and Licensee will be billed for additional one (1) year periods at the fees set forth in DRI's then current OEM Support Price List, unless Licensee provides DRI with notice of the nonrenewal of such extended support not less than thirty (30) days prior to the expiration of the then current period.

11.3 DRI agrees to make available to Licensee, at no charge, as published during the term of this Agreement and only for so long as such Product is distributed by DRI, object code patches and corrections and Documentation which correct errors or problems discovered in the then current release and version of the Product. Such patches, corrections and Documentation may be distributed in written or machine readable form, or as an entirely new reproduction diskette, at DRI's option, and shall be considered part of the Product hereunder. Maintenance as defined in this Paragraph 11.3 entitles Licensee to new versions of a Licensed Program.

11.4 Licensee is solely responsible for all media provided to end users and for passing on to its distributors, dealers and end users all maintenance materials, and for making the changes required in the master reproduction diskettes, both of which Licensee agrees to do. Licensee is solely responsible for all verbal and written contact with its end users of Licensed Programs in the following context: (1) software maintenance: patches and updates, and (2) software support: operational instruction, problem reporting, and technical advice.

11.5 EXCEPT AS PROVIDED IN PARAGRAPH 11.1 AS TO LICENSEE, AND IN THE END USER LICENSE AGREEMENT AS TO THE END USER, DRI MAKES NO WARRANTY, EXPRESS OR IMPLIED, RESPECTING THE PRODUCT AND MAKES NO WARRANTY TO ANYONE OTHER THAN LICENSEE. AS BETWEEN DRI

AND LICENSEE, DRI DISCLAIMS ALL OTHER WARRANTIES, INCLUDING, BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OF FITNESS FOR A PARTICULAR PURPOSE AND MERCHANTABILITY.

12. CONFIDENTIAL INFORMATION.

12.1 All documentation and information which is designated as DRI proprietary or confidential, mutually including without limitation drawings, Source Code, computer program listings, techniques, algorithms and processes and technical and marketing information ("Confidential Information") which is supplied by DRI to Licensee in connection with this Agreement (other than documentation and information intended for distribution to third parties) shall be treated confidentially by the receiving party and its employees and shall not be disclosed by the receiving party without the disclosing party's prior written consent. Information shall not be considered to be Confidential Information if it (1) is already or otherwise becomes publicly known through no act of the receiving party; (2) is lawfully received from third parties subject to no restriction of confidentiality; or (3) can be shown by the recieving party to have been independently developed by it prior to such disclosure.

12.2 Licensee shall not copy, reproduce, remanufacture, disassemble the Object Code or in any way duplicate all or any part of the Confidential Information, including translating it into another software language, except in accordance with the terms and conditions of this Agreement and as an authorized Licensee of the Source Code. Each party shall have an appropriate agreement with each of its employees having access to Confidential Information, sufficient to enable such party to comply with all terms of this Agreement. Each party agrees to protect the Confidential Information with the same standard of care and procedures which it uses to protect its own trade secrets and proprietary information.

13. LIMITATION OF LIABILITY.

13.1 In no event shall DRI be liable for any loss of profits, loss of business, loss of use or of data, interruption of business, or for indirect, special, incidental or consequential damages of any kind whether under this Agreement or otherwise, even if DRI has been advised of the possibility of such damages, or for any claim against Licensee by any other party, except as provided in the section entitled "Patents and Copyright Indemnification". In no case will DRI be liable for any representation or warranty made to any third party by Licensee, any agent or Licensee, any distributor or dealer or other person or entity in the distribution chain.

13.2 Notwithstanding anything in this Agreement to the contrary, DRI's entire liability to Licensee for damages concerning peformance or nonperformance by DRI or in any way related to the subject matter of this Agreeement and regardless of whether the claim for such damages is based in contract or in

tort, shall not exceed the amount of the payments made hereunder by Licensee to DRI related to such claim.

14. TERMINATION.

14.1 The term of this Agreement shall commence on the date executed by DRI and shall continue for the term of any license specified in Section 2.7 above unless earlier terminated as provided in this Section 14 or otherwise rightfully terminated.

14.2 DRI may, at its option, terminate this Agreement and the licenses granted hereunder if Licensee fails to meet any of Licensee's material obligations and is in default under this Agreement; however, DRI shall notify Licensee of any such default in writing and Licensee shal have a sixty (60) day cure period from receipt thereof.

14.3 The obligations of Licensee in Section 12.0 shall survive termination of this Agreement and shall remain in effect until the earlier of such time as the Confidential Information becomes in the public domain or eight (8) years following the termination of this Agreement. Upon termination of this Agreement, Licensee shall discontinue marketing and reproduction of the Product. Upon termination Licensee shall promptly return and make no further use of property, materials and other items and all copies thereof belonging to DRI relating to this Agreement.

14.4 This Agreement is executory in nature and so long as Licensee has any continuing obligations hereunder, DRI shall be entitled to protect the Source Code and master reproduction diskettes of the Licensed Programs by impounding in the event that Licensee fails to promptly perform any obligation under this Agreement which would fully protect DRI's proprietary rights. No trustee, receiver or debtor in possession may retain the Licensed Programs in any form or sell or license any Products, unless all of the provisions of 11 U.S.C. Section 365 of the United States Bankruptcy Act have been complied with and DRI is adequately protected.

14.5 Licensee understands and acknowledges that violation of Licensee's obligations pursuant to this Agreement and the SUPPLEMENTS and EXHIBITS may cause DRI irreparable harm and damage, which may not be recovered at law, and Licensee agrees that DRI's remedies for breach of this Agreement may be in equity by way of injunctive relief, as well and any other relief available, whether in law or in equity.

15. ASSIGNMENT.

This Agreement and the Licenses granted hereunder are to a specific entity or legal person, not including corporate subsidiaries or affiliates of Licensee, and are not assignable, by Licensee, nor are the obligations imposed on Licensee

delegable. Any attempt to sublicense, assign or transfer any of the rights, duties or obligations under this Agreement shall be void.

16. GENERAL.

16.1 In the event that any one or more of the provisions of this Agreement shall be found to be illegal or unenforceable, then notwithstanding, this Agreement shall remain in full force and effect, and such term or provision shall be deemed stricken.

16.2 Neither party's right to require performance of the other party's obligations hereunder shall be affected by any previous waiver, forbearance, or course of dealing.

16.3 This is a license agreement. No agency, partnership, joint venture or other joint relationship is created hereby and neither Licensee nor Licensee's agents have any authority of any kind to bind DRI in any respect whatsoever.

16.4 DRI is not responsible for failure to fulfill its obligations under this Agreement due to causes beyond its control.

16.5 Wherever in this Agreement either party's consent is required, such consent shall not be unreasonably withheld or delayed.

16.6 This Agreement constitutes the entire understanding between DRI and Licensee as to the Licensed Programs and supersedes all proposals, oral or written, and all communications between the parties relating to the subject matter of this Agreement. The terms and conditions of this Agreement shall prevail, notwithstanding any variance with any purchase order or other written instrument submitted by Licensee, whether formally rejected by DRI or not. This Agreement may be amended or modified only by a writing signed by each party.

16.7 The parties expressly stipulate that all litigation under this Agreement shall be brought in the State courts of the County of Monterey, or County of Santa Clara, California or the United States District Court for the Northern District of California. Licensee and DRI agree that Pacific Grove, California is both the place of making and the place of performance of this Agreement.

16.8 Notices under this Agreement shall be sufficient only if mailed by certified or registered mail, return receipt requested or personally delivered to the parties. Notice by mail shall be deemed received three days after deposit. Notices shall be addressed as follows:

For DRI: Digital Research (California) Inc.
160 Central Avenue
P.O. Box 579
Pacific Grove, California 93950
Attn: Contract Administration

For Licensee: Atari, Corp.
1265 Borregas
Sunnyvale, California 94086
Attn:

16.9 This Agreement shall be governed by and construed in accordance with the laws of the State of California.

DRI and Licensee have caused this Agreement to be executed by their duly authorized representatives on the respective dates entered below.

DIGITAL RESEARCH (CALIFORNIA) INC.

By: _____
Authorized Signature

_____
Name (Print or Type)

President
Title

8/22/84
Date

ATARI, CORP.
"LICENSEE"

By: _____
Authorized Signature

_____
Name (Print or Type)

_____
Title

8/22/84
Date

DRI RECOMMENDED

REGISTRATION CARD

Please read the End User License Agreement before opening the diskette package. If you do not agree to abide by the End User License Agreement, you may return the Product(s) to your supplier for a refund as long as the diskette package remains unopened. Upon receipt of this registration card at the address shown on the front of the card, you will become a registered user of the Product(s).

_____

I have read the End User License Agreement and agree to abide by the terms contained in it.

Licensed Program _____ Release _____ Serial No. ____

Name _____ Signature _____
(Please type or print)

Company _____

Address _____

City _____ State _____ Zip _____

Date _____

DRI OEM SOFTWARE LICENSE AGREEMENT
EXHIBIT B

DIGITAL RESEARCH

END USER PROGRAM LICENSE AGREEMENT

YOU SHOULD CAREFULLY READ THE FOLLOWING TERMS AND CONDITIONS BEFORE OPENING THE DISKETTE PACKAGE. OPENING THE DISKETTE PACKAGE INDICATES YOUR ACCEPTANCE OF THESE TERMS AND CONDITIONS. IF YOU DO NOT AGREE WITH THEM, YOU SHOULD PROMPTLY RETURN THE PACKAGE UNOPENED AND YOUR MONEY WILL BE REFUNDED.

Title to the media on which the program is recorded and to the documentation in support thereof is transferred to you, but title to the program is retained by DRI or AUTHOR. You assume responsibility for the selection of the program to achieve your intended results, and for the installation, use, and results obtained from the program.

1. **DEFINITIONS** - In this License Agreement, the terms:

   a. DRI means DIGITAL RESEARCH INC., 60 Garden Court, Box DRI, Monterey, California 93940, owner of the copyright in, or authorized licensor of, the program.

   b. Machine means the single microcomputer on which you use the program. Multiple CPU systems require additional licenses.

   c. AUTHOR means any third party author and owner of the copyright in this program.

   d. Runtime Library means the set of copyrighted DRI language subroutines, provided with each language compiler, a portion of which must be linked to and become part of your program for that program to run on the computer.

2. **LICENSE**

You may:

   a) use the program on a single machine;

   b) copy the program into any machine readable or printed form for backup or modification purposes only in support of such use. (Certain programs, however, may include mechanisms to limit or inhibit copying. They are marked "copy protected.") Copying of documentation and other printed materials is prohibited;

   c) modify the program and/or merge it into another program for your use on the single machine (Any portion of this

program merged into another program will continue to be subject to the terms and conditions of this Agreement); and,

d) transfer the program and license to another party if you notify DRI of name and address of the other party and the other party agrees to a) accept the terms and conditions of this Agreement, b) pay the then current transfer fee. If you transfer the program, you must at the same time either transfer all copies, including the original, whether in printed or machine-readable form to the same party or destroy any copies not transferred; this includes all modifications and portions of the program contained or merged into other programs.

You must reproduce and include the copyright notice on any copy, modification or portion merged into another program.

You may not use, copy, modify, or otherwise transfer the program, or any copy, modification or merged portion, in whole or in part, except as expressly provided for in this Agreement.

If you transfer possession of any copy, modification or merged portion of the program to another party, your license is automatically terminated.

3. TERM

The license is effective until terminated. You may terminate it at any other time by destroying the program together with all copies, modifications and merged portions in any form. It will also terminate upon conditions set forth elsewhere in this Agreement or if you fail to comply with any term or condition of this Agreement. You agree upon such termination to destroy the program together with all copies, modifications and merged portions in any form.

4. COMPOSITE PROGRAMS

As an exception to Paragraph 2, you are granted the right to include portions of the DRI Runtime Library in your developed programs, called Composite Programs, and to use, distribute and license such Composite Programs to third parties without payment of any further license fee. You shall, however, include in such Composite Program, and on the exterior label of every diskette, a copyright notice in this form: "Portions of this program, 1984 Digital Research Inc." In cases where such Composite Program is contained in Read-Only-Memory (ROM) chips, a copyright notice in the form listed above, must be displayed on the exterior of the chip and internally in the chip (in ASCII literal form). As an express condition to the use of the Runtime Library, you agree to indemnify and hold DRI harmless from all claims by you and third parties arising out of the use of Composite Programs.

5. LIMITED WARRANTY AND DISCLAIMER OF WARRANTY

DRI warrants the media on which the program is furnished to be free from defects in materials and workmanship under normal use for ninety (90) days from the date of delivery to you as evidenced by a copy of your receipt.

ALL PROGRAMS ARE PROVIDED "AS IS" AND NEITHER DRI, ITS DISTRIBUTORS OR DEALERS, NOR AUTHOR MAKE ANY WARRANTY OF ANY KIND, EITHER EXPRESS OR IMPLIED. THE ENTIRE RISK AS TO THE QUALITY AND PERFORMANCE OF THE PROGRAM IS WITH YOU. SHOULD THE PROGRAM PROVE DEFECTIVE, YOU (AND NOT DRI OR AUTHOR) ASSUME THE ENTIRE COST OF ALL NECESSARY SERVICING, REPAIR OR CORRECTION.

Neither DRI, its Distributors or Dealers, nor AUTHOR warrant that the functions contained in any program will meet your requirements or that the operation of the program will be uninterrupted or error free or that program defects will be corrected.

THE FOREGOING WARRANTIES ARE IN LIEU OF ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

SOME STATES DO NOT ALLOW THE EXCLUSION OF IMPLIED WARRANTIES, SO THE ABOVE EXCLUSION MAY NOT APPLY TO YOU. THIS WARRANTY GIVES YOU SPECIFIC LEGAL RIGHTS AND YOU MAY ALSO HAVE OTHER RIGHTS WHICH VARY BY STATE OR JURISDICTION.

6. LIMITATIONS OF REMEDIES

DRI's entire liability and your exclusive remedy shall be as follows:

With respect to defective media during the warranty period:

a. DRI will replace media not meeting DRI's "Limited Warranty" if returned to DRI or a DRI authorized representative with a copy of your receipt.

b. In the alternative, if DRI or such DRI authorized representative is unable to deliver replacement media free of defects in materials and workmanship, you may terminate this Agreement by returning the program and your money will be refunded.

For any other claim concerning performance or nonperformance by DRI pursuant to, or in any other way related to, the warranted programs under this Agreement, you shall be entitled to recover actual damages to the limits set forth below.

IN NO EVENT WILL DRI, ITS DISTRIBUTORS, DEALERS OR AUTHOR BE LIABLE FOR ANY LOST PROFITS, LOST SAVINGS, OR OTHER INCIDENTAL OR CONSEQUENTIAL DAMAGES ARISING OUT OF THE USE OR INABILITY TO USE ANY PROGRAM OR OTHERWISE, EVEN IF DRI OR AUTHOR HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, OR FOR ANY CLAIM BY ANY OTHER PARTY.

SOME STATES AND JURISDICTIONS DO NOT ALLOW THE LIMITATION OR EXCLUSION OF LIABILITY FOR INCIDENTAL OR CONSEQUENTIAL DAMAGES SO THE ABOVE LIMITATION OR EXCLUSION MAY NOT APPLY TO YOU.

The liability of DRI, or its Distributors or Dealers, to you for actual damages for any cause whatsoever, and regardless of the form of action, shall be limited to the greater of five thousand dollars ($5,000.00) or the money paid for the program that caused the damages or that is the subject matter of, or is directly related to, the cause of action.

7. SUPPORT SERVICE

Support Service from DRI, if any, will be described in program specifications or in the statement of service, supplied with the program, if there are no program specifications.

8. GENERAL

You may not sublicense, rent or lease this program. Any attempt to sublicense, rent or lease or, except as expressly provided for in this Agreement, to transfer any of the rights, duties or obligations hereunder is void.

This Agreement will be construed under the Uniform Commercial Code of the State of California.

DRI OEM SOFTWARE LICENSE AGREEMENT

AMENDMENT NO. I

DRI and Atari, Inc. ("Licensee") wish to add the following Supplements:

SUPPLEMENTS: A, B, B-1

attached to this facing page for the purpose of adding the Licensed Program(s) listed in SUPPLEMENT A to the OEM Software License Agreement, ("Agreement") effective August 22, 1984 between the parties. This Amendment and its SUPPLEMENT(s) listed above shall, as of the date executed by DRI ("Effective Date"), be incorporated into the Agreement.

EXECUTED BY THE PARTIES AS PROVIDED BELOW:

DIGITAL RESEARCH (CALIFORNIA) INC.	Licensee
By: E. Stanton McKee	By: [signature]
Authorized Signature	Authorized Signature
Name (Print or Type)	Name (Print or Type)
Sr VP / CFO	
Title	Title
8/22/84	8/22/84
Date	Date

(August/1984)

DRI OEM SOFTWARE LICENSE AGREEMENT

SUPPLEMENT A - PRODUCT(S) SPECIFICATIONS AND DELIVERABLES

1. "Licensed Program(s)" Covered and License Option:

THREE-YEAR UNLIMITED DISTRIBUTION OPTION

Operating Systems

CP/M (8bit)
Personal CP/M (8 bit)
CP/M Plus (8 bit)
MP/M II (8 bit)
CP/M-86 (16 bit)
CP/M-68K (32 bit)
Concurrent CP/M (Single and Multi-User Formats) (16 bit)
Concurrent DOS (Single and Multi-User Formats) (16 bit)
GSX-80 (running under CP/M 8-bit O/S)
GSX-86 (running under CP/M-86 and Concurrent DOS Release 3.1 O/S)
GSX-86 (running under MS-DOS O/S)
DR Net Release 1.0 (running under CP/M-86 and Concurrent DOS Release 3.1 O/S)

Languages, Graphics and Productivity Tools

	CP/M-80	CP/M-86	MS-DOS	CP/M-68K
Personal BASIC		X		
CBASIC	X	X		
CBASIC Compiler	X	X	X	X
C Compiler		X	X	
PASCAL MT/+	X	X	X	X
PL/I	X	X	X	
FORTRAN 77		X	X	
Dr. LOGO	X	X	X	
Access Manager	X	X	X	
Display Manager	X	X	X	
DR Assembler Plus Tools	X	X	X	
DR Graph	X	X	X	
DR Draw	X	X	X	
DR Access 10	X	X	X	

2. "Defined Computer(s)" on which Licensed Program(s) run(s):

Any microcomputer made for or by Licensee and sold under Licensee's name or any new name of Licensee, and any microcomputer made for or by any of Licensee's wholly-owned subsidiaries and sold under Licensee's or such wholly-owned subsidiary's name, but only for so long as such subsidiary remains wholly owned by Licensee. Defined Computers are limited to those running under a specific implementation of the CP/M-68K operating system. Notwithstanding such limitation, Defined Computers shall also include Licensee's computers based upon the 6500 family of microprocessors, which are available as of the date this Agreement is executed by Licensee.

DRI OEM SOFTWARE LICENSE AGREEMENT

SUPPLEMENT A - PRODUCT(S) SPECIFICATIONS AND DELIVERABLES (continued)

3. Microprocessor(s) on which Licensed Program(s) run(s):

All microprocessors

4. Product(s) Deliverables:

Product(s) OEM Redistribution Kit: resale card, support list card, sample registration card, License Agreement, Software Performance Report (SPR), release notes, OEM technical support cover letter, one (1) complete set of Licensed Program(s) Documentation in printed form which details operational specifications and functions of the Licensed Program(s), master disks for the Licensed Program(s), DRI's proprietary serialization program and an Software Redistribution Guide.

Other Deliverables:

Machine Readable Source (3740 for 8-bit, PC for 16-bit): available for Operating Systems only, and upon written request of Licensee on a per Licensed Program basis.

Camera Ready Copy for Documentation: available upon written request of Licensee on a per Product basis.

Documentation Reprint Rights: included for all Licensed Programs.

5. Specifications:

a. Registration card returned to: ____DRI X LICENSEE

b. From time to time during the term of this Agreement, DRI and Licensee may agree that DRI shall perform, under separate agreement and upon mutually agreeable prices, terms and conditions, certain technical services, including implementation, or assisting Licensee in the implementation of Licensed Programs on the Defined Computer. Licensee shall furnish necessary hardware and engineering resources to DRI for such services. Any implementations developed hereunder shall be added to the Licensed Programs in this Amendment I at no additional charge, and shall be subject to all the terms and conditions herein. Since under this Agreement DRI licenses its standard Licensed Programs, DRI cannot and does not warrant that the Licensed Programs can be implemented on any specific microprocessor or any specific computer system.

SUPPLEMENT A - PRODUCT(S) SPECIFICATIONS AND DELIVERABLES (continued)

c. Licensee may distribute an unlimited number of copies of the Licensed Programs during the three-year term hereof. See Supplement B-1 for renewal provisions.

d. In the future, should any DRI-owned software Products become available from DRI on an OEM basis, Licensee may add such Software Products to the Licensed Programs herein at no additional charge, upon written request to DRI. Notwithstanding the foregoing, any Software Products which DRI develops under a joint development agreement with another vendor are not covered under this Agreement. Nothing herein shall require DRI to provide additional software Products to this Amendment I.

e. As may be mutually agreed to on a case-by-case basis, DRI and Licensee may add additional available software programs which are not owned by DRI or for which DRI owes a royalty to a third party. In such latter event the price payable by Licensee to DRI shall not exceed twice such third party royalty. Licensing of such software shall be subject to any restrictions applicable to DRI.

f. PRIVATE BRANDING PROVISION

During the initial three (3) year term of this Agreement, Licensee may private brand to other hardware manufacturers and OEMS, under the following terms and conditions, the specific implementation of the CP/M-68K O/S which will include the screen device drivers portion of GSX and certain project subroutines from DRI's code named product "Crystal", not including the DESKTOP portion, (herein referred to as "The Operating System").

i) Licensee must pay DRI a private branding license fee for The Operating System, per private brander, that is equal to eighty percent (80%) of DRI's then current per copy royalty rate for "Crystal", at the volume chosen by the private brander, multiplied by the number of copies at said option. DRI's current OEM pricing for "Crystal" is as follows:

Option	Qty. of Copies	% of Option G	$/per copy
G	10,000	100%	$15.00
H	20,000	75%	11.25
I	50,000	60%	9.00
J	100,000	40%	6.00

SUPPLEMENT A - PRODUCT(S) SPECIFICATIONS AND DELIVERABLES (continued)

Option	Qty. of Copies	% of Option G	$/per copy
K	200,000	30%	$4.50
L	500,000	20%	3.00
M	1,000,000	15%	2.25

For example, a private brander choosing to license 200,000 copies of The Operating System, results in Licensee paying DRI a $720,000 private branding fee.

80% x $/pc at 200,000 copy option = discounted $/pc

.80 x $4.50 = $3.60

discounted $/pc x # of copies at option = private branding fee to DRI

$3.60 x 200,000 = $720,000

ii) Payment of the private branding license fee is due net 30 days after private brander has contracted with Licensee for the private branding license, for The Operating System.

iii) Licensee must notify DRI at the time of payment for the private branding license fee, of the name and address of the private brander, and the name of the hardware on which The Operating System will be distributed by the private brander.

iv) The private brander will report monthly to Licensee the number of units shipped; in turn Licensee will report monthly to DRI and units distributed will be deducted from each private brander's initial prepayment. Once the prepayment is offset, Licensee must contract with private brander and pay for additional licenses, for The Operating System.

v) Licensee has sole discretion as to the fee it charges each of its private branders for sublicensing rights to The Operating System.

g) Any applications software developed and distributed by DRI shall be offered to Licensee on terms no less favorable than provided to any similar licensee with similar quantity, terms and conditions.

DRI OEM SOFTWARE LICENSE AGREEMENT

SUPPLEMENT B- PAYMENTS TO DRI

Subject to other general Terms and Conditions of the OEM Software License Agreement, Licensee agrees to the following payment option. Any prepayments are offset with monthly distribution of copies of the Licensed Program(s).

STANDARD PAYMENT OBLIGATIONS

Licensed Program(s)	# copies Licensed	Amount Due
All Licensed Programs listed in Item 1 of SUPPLEMENT A	Unlimited	$2,000,000.00

OTHER PAYMENT OBLIGATIONS

Licensed Program(s)	Item
N/A	

Subtotal	$2,000,000.00
Special Sums Due	$_____
Total Sums Due	$2,000,000.00

SUPPLEMENT B (Continued)

DUE AND PAYABLE AS FOLLOWS:

TOTAL AMOUNT DUE: $2,000,000.00

$83,333.33 Due January 1, 1985 and on the first day of each consecutive month thereafter for a total of twenty-four (24) consecutive months.

DRI and Licensee have entered into a separate agreement entitled Implementation Assistance and License Agreement (referred to herein as "Implementation Agreement") effective August 22, 1984. This Implementation Agreement is explicitly separate and distinct and independent from the Agreement, and does not impact any obligations of the parties hereto except for the following. The Implementation Agreement specifies a certain date of December 15, 1984 for delivery of a Beta version of the specific implementation of the CP/M 68K operating system. In the event that the delivery of the Beta version of the specific implementation of the CP/M 68K operating system is not made by December 15, 1984, but is made by April 15, 1985, then the first payment of $83,333.33 as described herein, will commence on June 1, 1985 and will continue for twenty-four (24) consecutive months as described above.

In the event that the delivery of the Beta version of the specific implementation of the CP/M 68K operating system is not made by April 15, 1985, then the first payment of $83,333.33 as described herein will commence on September 1, 1985 and will continue for twenty four (24) consecutive months as described above.

Within thirty (30) days of execution of this Agreement, but no later than August 31, 1984, Atari shall provide to DRI an irrevocable Letter of Credit covering the $2,000,000.00 due and payable hereunder in such form and from such banking institution acceptable to DRI. Such Letter of Credit shall be in effect until all twenty-four (24) payments due hereunder are paid although it may be reduced proportionately as each of the twenty four (24) payments are made.

DRI OEM SOFTWARE LICENSE AGREEMENT

SUPPLEMENT B-1 - 3-YEAR UNLIMITED DISTRIBUTION OPTION

Renewal Option once three-year period has expired.

DRI and Licensee agree to meet and discuss the prices, terms and conditions under which Licensee may continue to distribute additional copies of the Licensed Programs. Nothing herein shall require either party to extend the term of this Agreement.

DRI agrees to provide Licensee with pricing as favorable as that then offered to any similar licensee with similar quantity, terms, and conditions.

IMPLEMENTATION DEVELOPMENT AND LICENSE AGREEMENT

AGREEMENT dated as of August 22, 1984, by and between DIGITAL RESEARCH (CALIFORNIA) INC., a California corporation having offices at 160 Central Avenue, Pacific Grove, California 93950 (hereinafter referred to as "DRI"), and Atari Corp. a Nevada corporation, having offices at 1265 Borregas, Sunnyvale, California 94086 (hereinafter referred to as "Atari").

WHEREAS, DRI has developed and owns several proprietary operating systems, one of which is known as CP/M-68K, which is intended to run on the Motorola 68000 microprocessor family.

WHEREAS, DRI has also developed and owns several user interfaces for use with various operating systems developed and owned by DRI; and

WHEREAS, DRI has also developed and owns a library of primitives that support graphics functions in conjunction with the user interface functions; and

WHEREAS, Atari desires DRI to implement one operating system for Atari which is a specific implementation of CP/M-68K (herein referred to as "TOS"); and

WHEREAS, Atari also desires DRI to implement under TOS an "Applications Services Library" consisting of:

a) the screen device drivers portion of GSX (herein referred to as "SDD"); and

b) certain "Crystal" project subroutines, not including the DESKTOP portion (herein referred to as "CS"); and

WHEREAS, DRI agrees to assist Atari in such implementations but also wishes to preserve DRI's rights in the underlying technology so that it is not restricted in any way from marketing and licensing to others certain component parts of TOS, as derived from existing and future DRI products, and as the DRI products might subsequently be integrated;

NOW THEREFORE, in consideration of the premises, and of the mutual promises and understandings herein contained, DRI and Atari agree as follows:

1. SCOPE OF WORK

All work performed hereunder and all deliverables scheduled in the Attachments work from a project start date of August 22, 1984.

Subject to timely receipt by DRI from Atari of the deliverables and manpower assistance specified herein and in the

attachments hereto, DRI will provide to Atari the software program deliverables as fully described as DRI Deliverables in Attachment B, attached hereto and made a part hereof ("Attachment B"). Delivery by DRI of the DRI Software Program Deliverables will occur on the dates described in the DRI Deliverables section of Attachment B and in conjunction with the dates listed on Attachment C, attached hereto and made a part hereof ("Attachment C").

2. TERM

The Term of this Agreement shall commence on the date executed by the last of DRI and Atari and shall continue for the life of the license created hereunder.

3. COMPENSATION

Atari shall pay DRI for DRI's services hereunder pursuant to the payments set forth in Attachment C.

4. GRANT OF LICENSE

DRI agrees that upon delivery to Atari of the DRI deliverables specified in Attachment B and contingent upon payment by Atari of all sums due by payment dates required by Attachment C under this agreement and under the OEM SLA referred to in Paragraph 4G below, DRI grants an exclusive, royalty-free, perpetual license to use, copy, distribute and sublicense TOS, SDD, and CS (however, the license for SDD and CS shall be exclusive and perpetual solely for use in conjunction with TOS) subject, however, to the following covenants and conditions on the part of Atari, which conditions and covenants shall survive this agreement and terminate only when the copyright on TOS expires:

A. Atari agrees it shall only license TOS to end users and for use on or in connection with hardware manufactured by or for and marketed under the Atari name; provided that Atari may also private brand TOS as bundled hardware and software to resellers like Sears or K-Mart, but shall have no right to sublicense or private brand TOS for other hardware manufacturers or OEM's except as provided for in Amendment No. 1 of the OEM SLA. SDD and CS may only be licensed and used as an integral part of TOS, and never licensed as separate, stand alone products in any manner.

B. Atari shall not create or permit creation of derivatives of TOS, SDD and CS except for use on other Atari manufactured or marketed hardware. The license granted herein for TOS, SDD and CS shall be applicable for all Atari-developed derivatives thereof and Documentation therefor;

C. Atari shall at all times market TOS as copyrighted code, carrying appropriate DRI copyright notices indicating ownership of the copyright by DRI as specified in DRI's Software Redistribution Guide. Atari may market TOS under any name not utilizing a DRI trademark as it may lawfully choose;

D. Atari shall not publish or make available the source code of TOS or SDD to any third party, except under industry standard proprietary license agreements, in order to protect the copyright and trade secret status of the underlying DRI code in the component programs;

E. Atari shall treat the source code for the CS routines in the same manner as Atari treats its own, in-house proprietary unreleased source code, and at a minimum shall safe-guard its trade secret status by:

(1) allowing no access to it by anyone outside the Atari organization;

(2) not permitting any copies of it in any form to be taken off the premises of Atari;

(3) not making copies of it, unless numbered and kept under lock and key when not in active use;

(4) only using it in conjunction with the Atari TOS operating system and applications prepared to run under TOS; and,

(5) permitting ISV's (independent software vendors), when necessary, to create applications software for TOS, by providing such ISV's only the functional interface specifications and documentation, and the source code for C procedural bindings, for that limited purpose and function. No actual source of CS shall ever be made available to such ISV's or anyone else.

F. Atari will not sell or assign its license to TOS, SDD and CS to other than a parent, subsidiary, or controlled affiliate of Atari, without the prior written consent of DRI and such assignment shall only be valid so long as such ownership or central relationship continues to exist; and

G. Except as otherwise specified herein, TOS, SDD and CS shall be a Licensed Program subject to the terms and condtions of the separate OEM Software License Agreement ("OEM SLA") between Atari and DRI executed concurrently herewith. In the event of any confilict between this agreement and the OEM SLA, the terms and condtions of this agreement shall prevail.

5. RIGHTS IN DATA

Atari does not hereby receive the right to use any trade secret or other proprietary information contained in TOS, SDD or CS, except within the specific limited scope of this agreement. DRI retains the absolute, unrestrained right to use its own technology and code for the development, marketing and licensing of graphics libraries, user interfaces and the DRI operating systems as used on TOS. DRI does agree, however, not to create or license TOS for any other person or company. DRI shall also retain the right in perpetuity to use and duplicate copies of the source and object code versions of TOS, SDD and CS prepared for Atari, for the purposes of support, maintenance and creation of derivatives and modifications of TOS, SDD and CS as may be requested by Atari and agreed to by DRI.

6. ATARI DELIVERABLES

Atari shall furnish DRI with the deliverables and manpower assistance specified in Attachment B attached hereto and made a part hereof. Any delay in the delivery of the Atari deliverables specified in Attachment B shall result in the dates for delivery of Beta versions of TOS, SDD, and CS, listed on Attachment C slipping by one day for each day that an Atari deliverable is late.

7. TAXES

Any federal, state, or local taxes, customs, or duties which may be assessed against this agreement or any services or deliverables hereunder, Atari's performance hereunder, or any deliverables shall be borne by Atari, except those taxes levied against DRI's net income.

8. USE OF TRADEMARKS

In connection with derivation of TOS, Atari does not, by development of the said Derivative operating system, obtain any right to use the trademarks of DRI connected with the basic code from which the TOS operating system is derived, such as CP/M-68K or any other mark presently or in the future used by DRI to identify its own unique software and hardware products.

9. RECRUITMENT

Because of the need for a close working relationship between DRI and Atari during implementation of TOS, DRI and Atari each agrees it will neither recruit nor hire technical or marketing employees of the other while any such person is employed by one or the other, or for a period of six calendar months after the

effective date of termination with one company. This provision shall remain in effect until three years after delivery of the TOS operating system in completed form, or January 1, 1988, whichever first occurs.

10. GENERAL PROVISIONS

a) DRI and Atari shall not disclose to any third party for a period of three (3) years from the date of this Agreement, without the prior written consent of the other party, the specific terms of this agreement except as required by law or governmental regulations, requirements or orders, or as may be reasonably necessary to establish or assert its rights hereunder.

b) Atari shall not sell, transfer, assign or subcontract any right or obligation hereunder except as expressly provided herein, without the prior written consent of DRI. Any attempted act in derogation of the foregoing shall be null and void.

c) The provisions of this agreement and the OEM SLA between the parties constitute the entire agreement and supersede all prior agreements, oral or written, and all other communications between them relating to the subject matter hereof. The validity, construction, and performance of this Agreement shall be governed by the laws of the State of California.

d) The parties expressly stipulate that all litigation under this agreement shall be brought in the appropriate State courts of the County of Monterey, or County of Santa Clara, California or the United States District Court for the Northern District of California and agree that the place of making and performance of this agreement is Monterey County, California.

e) IN WITNESS WHEREOF, the parties have caused this agreement to be duly signed as of the day and year first above written.

DIGITAL RESEARCH (CALIFORNIA) INC.	ATARI CORP.
By _____ Signature	By _____ Signature
Name _____ (Type or Print)	Name _____ (Type or Print)
Title President	Title _____
Date 8/22/84	Date 8/22/84

ATTACHMENT A

JOINT DRI/ATARI SOFTWARE DEVELOPMENT PROGRAM

Program Goal

The goal of this joint DRI/Atari software development program is to provide one operating system, one user interface and one Logo language processor which executes on the new Atari computer which uses the Motorola 68000 processor.

Software Development Responsibilities:

DRI is responsible for the delivery, to Atari of the DRI CP/M-68K operating system, the DR LOGO Language and the DRI Application Services Library as detailed in Attachment B.

Atari is responsible for all of the Atari computer unique software which includes the unique portions of the operating systems (BIOS), the unique portions of the DR LOGO Language (LIOS) and the unique portions of the Applications Services Library (GIOS). Attachment D details some of the system unique components which will be required.

Software Delivery Environment:

In order to insure timely delivery of the DRI CP/M-68K operating system, the DRI Applications Services Library and the DR LOGO Language and to provide an environment which will allow Atari to inspect and accept these system components a development computer suite will be used.

The specific development systems (development computers) on which the DRI CP/M-68K operating system, the DR LOGO language and the DRI Application Service Library delivered to Atari will execute are the Motorola VME-10 and the Atari Computer.

Acceptance Criteria:

DRI will deliver the CP/M-68K operating system, the DRI Applications Services Library and the DR LOGO Language executing on the development computers in accordance with the DRI external specifications for applications and end user interfaces.

Atari will deliver to DRI the items specified in Attachment B on schedule and to a level of detail and accuracy that meets DRI approval.

PROJECT 1

TOS Operating Systems

A. DRI is responsible for delivery to Atari of the CP/M-68K operating system as follows:

As specified in Attachment B of this Implementation Agreement DRI will deliver to Atari the operating system in source and executable form configured to run on the development computers. Attachment B to this agreement contains the list of deliverable items for which DRI is responsible and delivery schedules to which DRI will perform.

The BIOS delivered with this system will not support the Atari computer. It will support the development system configurations defined and is intended to serve as an example for the development of the Atari BIOS.

B. Atari is responsible for the generation of the Atari specific components (BIOS) to the operating systems which cause the baseline CP/M-68K operating system to execute on the Atari computer. Attachment D contains a list of some of the items which may be contained in the Atari BIOSs and for which Atari is responsible.

Per this agreement DRI software engineers will be made available to assist the Atari software engineers in the development of the Atari specific components of TOS. The Atari specific BIOS in conjunction with the baseline operating systems delivered to Atari by DRI will constitute TOS. It is expected that the DRI software engineers will assist Atari in the following areas:

1) Interface to the Atari hardware engineers during the design of the Atari computer hardware.

2) Functional Requirement Specification of TOS.

3) Development of project schedules based upon the Functional Requirement Specification.

4) Detailed Design Specification of the TOS Operating System.

5) Implementation of the TOS Operating System as designed.

6) Testing of the TOS Operating System on the Atari computers.

7) Demonstration of the TOS Operating System on the Atari computer.

PROJECT 2

DR LOGO Language

A. DRI is responsible for the delivery to Atari of the DR LOGO as follows:

As specified in Attachment B of this Implementation Agreement the DR LOGO language will be delivered to Atari by DRI configured to run on the development computer. Attachment B to this agreement contains the list of deliverable items for which DRI is responsible and delivery schedules to which DRI will perform.

The LIOS delivered with this system will not support the Atari computer. It will support the development system configuration defined is intended to serve as an example for the development of the Atari LIOS.

B. Atari is responsible for the generation of the Atari specific component (LIOS) to the DR LOGO language required to cause the baseline DR LOGO language to execute on the Atari computer. Attachment D contains a list of some of the items which may be contained in the Atari LIOS and for which Atari is responsible.

Per this agreement DRI software engineers will be made available to assist the Atari software engineers in the development of the Atari specific components of the DR LOGO language. The DRI engineers will be available to participate in the design and implementation of the LIOS for the Atari computer. This Atari specific LIOS in conjunction with the generic portion of the DR LOGO language delivered to Atari by DRI will constitute DR LOGO for the Atari computer and the TOS Operating System. It is expected that the DRI software engineers will assist Atari in the following areas:

1) Interface to the Atari hardware engineers during the design phase of the Atari computer.

2) Porting of the generic portions of DR LOGO to the Atari computer.

3) Functional Requirements Specification for the Atari specific LIOS.

4) Development of project schedules based upon the Functional Requirement Specification.

5) Implementation of the machine specific LIOS code.

6) Testing of the DR LOGO language on the Atari computer.

PROJECT 3

USER INTERFACE

A. DRI is responsible for the delivery to Atari of the DRI Applications Services Library as follows:

The initial user interface delivered with the CP/M-68K operating system configured to run on the development system will be the DRI standard CCP console control programs. The TOS specific user interfaces will use components of user interface and graphics libraries developed by DRI. The specific components to be used will be delivered to Atari under the name DRI Applications Services Library. Attachment B to this agreement contains the list of deliverable items for which DRI is responsible and delivery schedules to which DRI will perform.

B. Atari is responsible for the generation of the Atari specific component (GIOS) to the DRI Applications Services Library required to cause the baseline DRI Applications Services Library to execute on the Atari computer. Attachment D contains a list of some of the items which may be contained in the Atari GIOS and for which Atari is responsible.

Per this agreement DRI software engineers will be made available to assist the Atari software engineers in the development of the Atari specific components of the DRI user interface subroutine library. The DRI engineers will be available to participate in the design and implementation of the GIOS for the Atari computer. This Atari specific GIOS in conjunction with the generic portion of the DRI user interface library delivered to Atari by DRI will constitute the Atari TOS operating system user interface for the Atari computer TOS operating system. It is expected that the DRI software engineers will assist Atari in the following areas:

1) Interface to the Atari hardware engineers during the design phase of the Atari computer.

2) Functional Requirements Specification of the Atari User Interface.

3) Development of project schedules based upon the Functional Requirement Specification.

4) Detailed Design Specification of the Atari User Interface.

5) Porting of the selected DRI user interface and graphics components to the 68000 environment.

6) Implementation of the Atari User Interface.

7) Testing of the Atari User Interface.

ATTACHMENT B

Schedules and Deliverables

ATARI DELIVERABLES

	Date Required
A. DOCUMENTATION.	
1. Atari hardware development schedules.	Sep 1, 1984
2. Atari System Architecture Document.	Sep 1, 1984
3. Atari hardware Detail Design Specification.	Sep 1, 1984
4. Atari Functional Requirements Specification for the Atari software system.	Sep 1, 1984
B. EQUIPMENT.	
1. Atari prototype computer which must be fully functional and stable. Atari will provide DRI with one hardware engineer knowledgeable in the Atari prototype computer to assist DRI in support of the hardware should it not be fully usable by software engineers assigned to the project. Four (4) Motorola 68000 based systems.	Oct 15, 1984
2. Atari production computers. Four (4) Motorola 68000 based systems.	Dec 1, 1984
3. Four (4) standard Motorola VME-10 development systems with graphics display monitor, 256K added memory, Z29 terminal, and VME-400 dual serial port.	Sep 1, 1984
4. Eleven (11) Apple Lisa development systems.	Sep 1, 1984
5. One (1) IBM-PCXT with color graphics adapters and mouse support.	Sep 1, 1984
C. PERSONNEL.	
1. Atari shall provide at its expense seven (7) full-time qualified engineers to assist DRI. Such engineers shall be resident at the DRI facility in Monterey during the development of the TOS Operating Systems, the DR LOGO language and the TOS user interface. All costs to be borne by Atari directly. DRI shall have the right to interview and approve Atari engineers to be assigned to the project.	Sep 1, 1984

DRI DELIVERABLES

A. SOFTWARE and DOCUMENTATION.

PROJECT NAME	DELIVERY DATE
CP/M-68K OPERATING SYSTEM PROJECT	
CP/M-68K Operating System User's Guide	Sep 1, 1984
CP/M-68K Operating System Programmers Guide	Sep 1, 1984
CP/M-68K Operating System Systems Guide	Sep 1, 1984
CP/M-68K Operating System (8 Master disks 8" floppy disks w/label & Jacket single sided single density)	Sep 1, 1984
CP/M-68K Alpha release system	Oct 15, 1984
CP/M-68K Source code	Dec 15, 1984
CP/M-68K Object code	Dec 15, 1984
CP/M-68K Beta release system configured for the development computers	Dec 15, 1984
DR LOGO Language (68000)	
DR LOGO Language Specification	Sep 1, 1984
DR LOGO Installation Guide	Sep 1, 1984
DR LOGO Tutorial	Sep 1, 1984
DR LOGO Dictionary	Sep 1, 1984
DR LOGO Language (2 master disks 8" floppy disks w/label & jacket single sided single density)	Sep 1, 1984
DR LOGO for the 68000 executing on the development computer	Dec 1, 1984
DRI Applications Services Library for the 68000	
Applications Services GSX Programmers Guide	Dec 15, 1984
Applications Services Crystal Programmers Guide	Dec 15, 1984
Applications Services executing on the development computer	Dec 15, 1984
Applications Services Alpha release	Nov 15, 1984
Applications Services Source code	Dec 15, 1984
Applications Services Beta release	Dec 15, 1984
Applications Services object code	Dec 15, 1984

B. PERSONNEL.

1. DRI shall provide seven (7) qualified software engineers plus one (1) full time project manager on-site at its location in Monterey during the term of this agreement generally in accordance with manpower and schedule requirements developed during the specification of each of the three defined projects. DRI shall retain management control of the project.

C. Software Development Schedules.

Preliminary estimates as to the manpower required and schedule to deliver the DRI CP/M-68K operating system, the DR LOGO language and the DRI Application Services Library have been supplied.

ASSUMPTIONS

1. Development Environment (68000)

   a. Standard CP/M-68K
   b. Alcyon Complier/Assembler
   c. SID-68K
   d. Stable graphics hardware (i.e. VME-10)
   e. MINCE editor
   f. Fonts for Atari computer are purchased from Bitstream and are available no later than week 8.

2. Development Team

   a. Experienced Crystal programmer
   b. Experienced GSX programmer
   c. Experienced C systems programmers with knowledge of 68K assembler.

ATTACHMENT C

PAYMENTS

Within ten (10) days after the end of each calendar month DRI shall submit to Atari an invoice indicating charges for labor, overhead, and other direct charges, for the preceding month. Atari shall pay such charges no later than twenty (20) days after such invoice is billed.

The charges are described as follows:

DRI will bill Atari for charges equaling the total payroll costs, including bonuses which shall be subject to approval by Atari, and including benefits for each individual involved on the project, plus a factor of fifty percent (50%) to cover any additional overhead expenses. In addition, DRI will bill Atari for any direct consulting fees specifically incurred to perform under this contract.

All required development equipment shall be provided by Atari on a loan basis without cost for as long as required to complete any development or implementations specified herein or requested by Atari, at the end of which time DRI will return the development equipment to Atari.

Software Delivery Dates

If DRI fails to deliver the Beta version of the CP/M-68K operating system including Application Services Library running on the Atari computer by December 15, 1984, Atari shall receive a Two Hundred Fifty Thousand Dollar ($250,000.00) credit to be used against future purchases of application software developed by DRI.

If DRI fails to deliver the Beta version of the CP/M-68K operating system including Application Services Library running on the Atari computer by February 15, 1985, Atari shall receive an additional Two Hundred Fifty Thousand Dollar ($250,000.00) credit to be used against future purchases of application software developed by DRI.

As referenced in Section 6 of the agreement, these dates of December 15, 1984, and February 15, 1985, will slip by one day for each day that any Atari deliverable, as specified in Attachment B, is delayed.

ATTACHMENT D

Atari Specific Software Development Projects

The following software development tasks are unique to the Atari computer. It is recommended that DRI and Atari participate in these projects jointly. DRI offers it's experience and expertise in the specification, design, implementation and testing of the Atari unique components of the TOS Systems. It should be noted that software development estimates do not include provisions for external Quality Assurance testing, publications or manufacturing activities.

ESTIMATED CODE SIZES FOR ATARI UNIQUE COMPONENTS

BIOS		
	Keyboard & display	1.00
	Hard Disk	3.00
	Floppy Disk	1.50
	Centronics Interface (parallel)	.75
	Serial Interface (RS-232)	.75
	Total BIOS code size	7.00
GIOS	Screen drivers	9.00
LIOS		5.00

Exhibit 10.2

RESEARCH AND DEVELOPMENT AGREEMENT

THIS AGREEMENT is made as of this 1st day of November, 1984 by and between Atari Corp., a Nevada Corporation ("AC"), having its principal executive office at 1265 Borregas Avenue, Sunnyvale, California 94089 and Jack Tramiel ("Tramiel"), having his office at P.O. Box 465, Zephyr Cove, Nevada 89448.

RECITALS

A. Whereas, AC is desirous of obtaining investment capital to complete a research and development project for the creation of a low cost personal computer based on the Motorola 68000 microprocessor and custom integrated circuits (the "Technology"); and

B. Whereas, Tramiel is willing to invest in such project; and

C. Whereas, AC is willing to grant Tramiel an ownership interest in the results of such project, and

D. Whereas, AC desires to obtain and Tramiel is willing to grant to AC a royalty-bearing license to use Tramiel's ownership interest in the results of such project.

Now, therefore, the parties do agree as follows:

1. GENERAL.

1.1. Scope. AC agrees to use its best efforts to provide research and development services and the personnel, materials, equipment and facilities that may be required to design, develop and reduce the Technology to practice and ready it for commercial exploitation in accordance with the Statement of Work set forth in Schedule A attached hereto.

As used herein, the word "Work" shall have the meaning defined in Schedule A hereto.

1.2. Performance of Work. AC agrees to undertake and to attempt in good faith to successfully and timely complete the Work in accordance with the terms of this Agreement. Schedule A hereto sets forth the activities, the sequence of activities and the estimated period involved in performing such activities, the estimated elapsed time required to complete each set of activities comprising each phase of the Work and the Work in its entirety.

1.3. Not a Performance Contract. AC makes no guarantee or representation that the Work will be completed as provided in Schedule A, or at all, and whether or not the Work is successfully completed and accomplishes the results contemplated hereunder, AC shall be entitled to retain any and all of the contract price paid to it by Tramiel unless AC fails to perform the Work as described in Schedule A in a good faith manner or this Agreement is terminated by Tramiel under Section 14.2 hereof.

1.4. Research and Development Expenditures. This Agreement is specifically intended for research and development in an experimental or laboratory sense, and all expenses paid by Tramiel hereunder are intended to qualify as currently deductible expenses within the meaning of Section 174 of the Internal Revenue Code of 1954, as amended. AC represents and warrants that no expenditures hereunder will be made for management studies, consumer surveys, or advertising and promotion. AC agrees to maintain adequate records to support such expenditures.

2. PAYMENT.

2.1. Payment by Tramiel. In consideration of AC's efforts under Section 1.2 hereof, Tramiel shall pay to AC $500,000 by December 31, 1984. Such amount is based upon a good faith estimate by AC of the expenses and profit of AC to be earned for each phase of the Work allocable to Tramiel's ownership interest and is being made in advance in order to provide AC the necessary funds and working capital to complete the Work.

2.2. Expenditures by AC. AC agrees to apply the payments it receives from Tramiel toward the completion of the Work. AC shall bear all costs and expenses relative to providing and performing the Work. However, AC is not obligated to perform any more of the Work described in Schedule A than the amount actually paid for by Tramiel plus $2,500,000 of its own funds including amounts expended prior to November 1, 1984.

3. SPECIFIC SERVICES.

3.1. Engineering Documentation. Upon written request of Tramiel, AC will provide and continue to provide Tramiel with all research and development information, pert charts, schedules, all drawings and specifications, and all finished product information as it relates to the Work. Such information may be held and used by AC in furthering the Work.

3.2. Reports. AC will provide Tramiel with interim reports at the conclusion of the principal phases of the Work set forth in Schedule A hereto. In addition, AC shall promptly notify Tramiel of any significant problems that may occur during the course of the Work, including such events as major design flaws, announcements concerning the use of superior technology causing the Work to have become obsolete, and other events or happenings which could materially adversely affect the Work's successful completion and the benefits to be derived therefrom.

3.3. Books and Records. AC shall maintain and keep proper records with respect to all transactions referred to above and throughout this agreement, and Tramiel, on reasonable notice, shall have the right, with or without Tramiel's accountants, independent consultants, and representatives, to inspect the same including, but not limited to, plans, drawings, invoices, vouchers and other records, for verification of performance of all matters on AC's part to be performed hereunder. Tramiel shall bear all costs and expenses of any such inspection or examination, including costs and expenses of accountants, consultants, or other representatives.

3.4. Title, Patents and Proprietary Protection. It is understood and agreed that, subject to the Option to License and the Option to Purchase, Tramiel shall have a seventeen percent (17%) undivided interest and AC shall have a eighty-three percent (83%) undivided interest in the Technology as tenants in common. AC agrees to cause such United States and foreign patent applications and copyrights to be prepared and prosecuted as normal business practice would dictate or as reasonably requested by Tramiel but all such applications, patents and copyrights will be owned by Tramiel and AC as tenants in common in the same percentage ownership as their ownership of the Technology. AC further agrees to: (a) do all such acts and to execute, acknowledge and deliver all instruments or writings reasonably requested and necessary for Tramiel to perfect his ownership interest; (b) secure letters patent and copyrights whenever reasonable, as well as all reissues, renewals, and extensions thereof; and (c) obtain the record title to such patents and copyrights; and maintain a system of protecting all trade secrets and other proprietary rights as normal business practice would dictate and as reasonably requested by Tramiel.

AC agrees to maintain the Technology in strict confidence. AC shall restrict access to the Technology to those employees, agents and such other persons as AC in its best judgment, expressly authorizes to have such access after determination that each such person has a need to know about the Technology. AC shall take all reasonable steps to safeguard the Technology so that no unauthorized person shall have access to the Technology, and that no person authorized to have access to any of the Technology shall make any unauthorized copy thereof. AC agrees to cause all of its employees, agents, sub-contractors, consultants, advisors and others with access to such information to sign a confidentiality agreement in form reasonably acceptable to Tramiel.

4. EXCLUSIVE LICENSE OPTION

4.1. Tramiel hereby grants AC the exclusive option and right to acquire a worldwide exclusive license (including the right to sublicense subject to the limitations imposed on AC hereunder and for a term not to exceed the term of the license granted to AC hereunder) to use, manufacture and market all of his right, title, and interest in and to the Technology.

4.2. AC may exercise its option with respect to the Technology by written notice to Tramiel within 60 days after (a) the Technology has been reduced to practice, or (b) work on the Technology has been abandoned (i) because AC and Tramiel have reasonably so agreed, or (ii) because all work under the R&D Contract with respect to the Technology has been terminated (other than as a result of default by AC) and the Technology has not then been reduced to practice (the date upon which the option is exercise is hereinafter referred to as the "Exercise Date"). AC shall promptly notify Tramiel when the Technology has been reduced to practice. It is the anticipation of the parties that AC will exercise its license option if the technology is successfully reduced to practice.

4.3. The license shall have a term commencing on the Exercise Date and continuing for a period of 36 months from the date on which this option became exercisable.

5. UTILIZATION OF LICENSE AND COMMITMENT OF AC.

Commencing as soon after the Exercise Date as practicable, AC shall use its best efforts during the term of the license to produce and market products using the Technology. AC may also, consistent with its own best business judgement, sublicense the Technology to third parties.

6. LICENSE FEES.

AC agrees to pay Tramiel for the license herein granted a royalty of two dollars ($2.00) per unit of CPU's during the term of the license, and a royalty of 16% of the total amount of Royalty Revenues during the term of the license.

"CPU" shall mean any microcomputer incorporating all or substantial part of the technology, regardless of whether such microcomputer is sold together with peripherals or as an integrated system and regardless of whether such microcomputer has a keyboard.

"Royalty Revenues" means all royalties, license fees and similar payments received by AC from a Third Party Licensee for use of the Technology including any lump sum payment by a Third Party Licensee to terminate royalty obligations. Royalty Revenues shall include any amounts received by AC from any third party as a result of alleged or actual infringement of AC's license rights to utilize the Technology.

"Third Party Licensee" shall mean any person or entity who has been granted or has obtained a sublicense to the Technology.

Any royalties which may be payable by AC to Tramiel shall become due and shall be paid within sixty (60) days after the close of the calendar year in which the revenues on sales or Royalty Revenues were received by AC.

7. REPORTING REQUIREMENTS.

AC shall at all times during the period of its royalty obligations hereunder keep an accurate account of Net Revenues and Royalty Revenues and shall render written statements thereof to Tramiel, certified as being true and correct by AC's Chief Financial Officer, on the payment date for the royalties. In connection with the audit of its annual financial statements, such audit shall include a reasonable verification of AC's royalty obligation under this Agreement. Tramiel shall have the right, at his own expense, on reasonable notice to AC, to inspect AC's books and records for the purpose of verifying such statements.

8. OPTION TO PURCHASE.

8.1. Grant of Option. Tramiel hereby grants to AC the option (the "Purchase Option"), to purchase all of his right, title and interest in and to the Technology.

The Purchase Option may be exercised at any time after six months and 1 day following the reduction to practice of the Technology, but only if AC has exercised its Option to License with respect to the Technology, or (b) if the Technology has not been reduced to practice and if AC elects, commencing on the date on which AC and Tramiel have reasonably agreed to abandon work on the Technology or the date on which all work under the R&D Contract with respect to the Technology has been terminated (other than as a result of a default by AC (the "Option Period").

8.2. Method of Exercising. AC may exercise the Purchase Option by giving written notice to Tramiel at any time after six months and one day following the reduction to practice of the technology. The date of AC's exercise of the Purchase Option is sometimes referred to as the "Exercise Date". The closing with respect to the purchase shall occur not later than 30 days after the Exercise Date.

9. PURCHASE PRICE.

9.1. The purchase price for Tramiel's interest in the Technology shall be determined in accordance with the following schedule, and reduced by royalties actually paid to Tramiel:

Option Exercise Period			Price
Through June 30, 1986			575,000
July 1, 1986	to	September 30, 1986	597,000
October 1, 1986	to	December 31, 1986	618,000
January 1, 1987	to	March 31, 1987	640,000
April 1, 1987	to	June 30, 1987	661,000
July 1, 1987	to	September 30, 1987	686,000
October 1, 1987	to	December 31, 1987	711,000
January 1, 1988	to	March 31, 1988	736,000
April 1, 1988	to	June 30, 1988	760,000

9.2. Any portion of the purchase price then required to be treated as interest or original issue discount under the Internal Revenue Code of 1954 as amended (the "Code") shall be so treated and shall be computed at the minimum rate at which interest or original issue discount, as the case may be, must be stated in order to avoid the imputation of such interest of original issue discount under the Code.

10. REPRESENTATIONS.

AC represents and warrants as follows:

10.1. Organization, Standing, Etc. AC is a corporation duly organized, validly existing and in good standing under the laws of the state of Nevada and has all requisite power and authority to own and operate its properties, to carry on its business as now conducted and proposed to be

conducted under this Agreement, to enter into this Agreement and other instruments referred to herein to which each is to be a party, and to carry out the transactions contemplated hereby and thereby. AC is duly qualified to do business and is in good standing in all jurisdictions where not having such qualifications would have a material adverse effect on the conduct of its business or the ability of Tramiel to use the Technology.

10.2. Due Authorization, Etc. This Agreement has been duly and validly executed and delivered and is a valid and binding agreement, enforceable in accordance with its terms, except (A) to the extent the enforceability hereof may be limited by (1) bankruptcy, insolvency, reorganization, moratorium or similar laws from time to time in effect and affecting the rights of creditors generally, and (2) limitations upon the power of a court to grant specific performance or any other remedy with respect to the enforcement of this Agreement, and (B) that the indemnification provisions of this Agreement are or may be held violative of public policy.

10.3. Compliance with Other Instruments, Etc. AC is not in violation of any term of its Articles of Incorporation or By-Laws, any material judgment, decree or order imposed by any state or federal court or government or agency thereof, or any agreement, instrument, statute, rule or governmental regulation, which violation would have a material adverse effect upon AC. The execution, delivery and performance of this Agreement and any other instrument referred to herein to which AC is a party will not result in such violation, or be in conflict with or constitute a default under any such term, or result in the creation of any mortgage, lien, charge or encumbrance upon any of the properties or assets of AC pursuant to any such term.

10.4. Other Agreements. AC has not sold, transferred or assigned the Work or any products comprising a part thereof to any person and has no agreements, understandings or arrangements with respect to any such transaction.

10.5. Infringement. To AC's knowledge, neither the Work nor any products comprising a part thereof infringe any patent or are subject to any claim with respect to (and do not violate) the proprietary rights, trade secrets, copyrights or property rights of any person known to AC. AC will advise Tramiel of any such infringement or claim of infringement that is becomes aware of during the term of this Agreement and will cease performing the Work if Tramiel so directs. Any such notice of cessation shall constitute a Termination Event (as herein defined).

10.6. Government Consent. Neither the approval nor consent of any government or agency thereof is required to be obtained in connection with the consummation of the transactions contemplated hereby.

11. CONDITIONS TO PERFORMANCE OF THIS AGREEMENT.

Conditions to Tramiel's Obligations. During the term of this Agreement, Tramiel's obligation to make the $500,000 payment to AC due by December 31, 1984 set forth in Section 2.1 is subject to satisfaction of the following conditions (any of which may be waived by Tramiel):

11.1. Representations Correct. The representations of AC contained in Section 10 hereof shall be correct in all material respects as when made.

11.2. Performance. AC shall have substantially performed and complied with all material agreements and conditions contained herein to be performed or complied with by it prior to the time of payment as specified in Section 10 hereof, and at such time no event shall exist which constitutes, or which, after notice or lapse of time or both, would constitute a Termination Event (as herein defined).

11.3. Proceedings and Documents. All corporate and other proceedings of AC in connection with the transations incidental thereto shall have been delivered to Tramiel and Tramiel shall have received all such counterpart originals or certified or other copies of such documents as Tramiel or its counsel may reasonably request.

11.4. Insurance. AC shall provide sufficient fire, theft and casualty insurance to adequately protect Tramiel's interest in the Work and the Technology.

11.5. Personal Property Taxes. AC shall be responsible and liable for the payment of, or reimbursement to Tramiel with respect to, all personal property taxes, state and local privilege or excise taxes or assessments of any nature, and sales or use taxes based on the charges or transfers between the parties made pursuant to or contemplated by this Agreement, whether or not such taxes or assessments are collected from AC or Tramiel except income taxes applicable to Tramiel.

12. NONLIABILITY OF TRAMIEL AND LIMITS OR TRAMIEL LIABILITY.

Tramiel will be under no obligation to participate directly in the prosecution of the Work or to make any warranties relating to the Work, and will not be liability for any failure to so directly participate or for breach of any warranties made by AC relating to the Work.

13. INDEMNIFICATION OF TRAMIEL.

Under the terms and subject to the conditions set forth in this Article 13, AC shall indemnify Tramiel and defend and hold him harmless from and against all claims, liabilities, losses and damages (other than those based upon actions or failure to act by Tramiel) asserted by any person, together with all costs, expenses or liabilities relating thereto (including reasonable attorneys' fees), based upon: (i) any breach by AC of its representations and warranties under Article 10 of this Agreement or (ii) the acts or omissions of AC, its agents, employees, or subcontractors, arising out of or in connection with the performance of the Work.

Each party agrees to promptly notify the other of the matters in respect of which the foregoing indemnity may apply and of which the notifying party has knowledge. Upon the condition that AC is notified promptly in writing of any action or claim brought or threatened against Tramiel based on a claim for which AC is to provide indemnity and given full and complete authority, information and assistance by Tramiel for the defense of the same, AC shall defend those actions or claims at its expense and pay the costs and damages and attorneys' fees awarded against Tramiel in any such action or claim, provided that AC shall have the right to control the defense and settlement of any such actions or claims, and provided further that AC shall not have any liability for any costs or attorneys' fees incurred by Tramiel (unless incurred at the direction of AC) after AC shall have undertaken and shall be continuing such defense in good faith. Tramiel will take all such actions (at the expense of AC) as may be reasonably requested by AC in connection with such settlement or defense.

14. TERMINATION.

14.1. General. The term of this Agreement shall commence on the date hereof and shall continue until completion of the Work. Completion of the Work shall be deemed to occur upon the earlier of: (i) AC's actual completion of the Work, or (ii) AC's expenditure of the contract fee and the amount of its funds as required in paragraph 2.2 in accordance with this Agreement. Upon such completion, AC shall deliver to Tramiel any and all of the Technology and related results of the Work and shall advise Tramiel of Completion of the Work.

14.2. Termination by Tramiel. Tramiel's obligation to make payments under Section 2.1 hereof may be terminated by Tramiel and this Agreement may be terminate upon not less than 10 days' prior written notice to AC if any of the following events ("Termination Events") shall have occurred:

14.2.1. If AC shall default in the performance of or compliance with any material term contained in this Agreement (excluding the provisions of Schedule A) and such default shall not have been remedied within 60 days after written notice thereof to AC, as the case may be, from Tramiel; or

14.2.2. If any proceedings shall be commenced by or against AC for its dissolution or under any bankruptcy, insolvency, reorganization, arrangement, composition or similar laws at the time in effect, and such proceedings shall not have been dismissed within 90 days after the commencement thereof, or AC fails to post a performance bond.

14.3. Termination by AC. This Agreement may be terminated prior to its expiration by AC upon not less than ten (10) days' prior written notice to Tramiel if Tramiel shall have defaulted in the performance of or the compliance with any material term contained in this Agreement and such default shall not have been remedied within 30 days after written notice thereof to Tramiel from AC.

14.4. Termination Accounting. Upon termination of this Agreement caused by a Termination Event as Defined in Section 14.2, AC will on request provide Tramiel, upon 15 days' written notice, an up-to-date accounting of the development cost incurred by AC to the date of such termination. At such time, AC will refund to Tramiel monies advanced by Tramiel in excess of the actual Work cost (which Work cost will include AC's profit) incurred to date of termination.

14.5. Remedies. Notwithstanding the foregoing, if any Termination Event described in Section 14.2 occurs, Tramiel in addition to any rights and remedies available at law or in equity to which he is entitled, shall have the right to cease paying AC the payments described in Article 2 and AC may, at its option, cease the related Work.

14.6. Termination by Abandonment or Default. Termination of this Agreement pursuant Section 14.2 or 14.3, shall not defeat AC's rights to license or purchase the Technology under its Option to License and Option to Purchase and any termination under Section 14.3 shall give AC the option to purchase Tramiel's rights to the Technology for the amount then expended by Tramiel under this Agreement.

15. FURTHER ASSURANCES.

Each party will cause to be done, executed, acknowledged and delivered all and every such further acts, conveyances and assurances as the other party shall reasonably require for accomplishing the purposes of this Agreement, and each party will, at the other's request, which shall not occur more than once in each calendar quarter, furnish to the other party a certificate signed by one of its officers (or by Tramiel if requested by AC) to the effect that no Termination Event has occurred or is continuing.

16. NOTICES.

All notices and other communications hereunder shall be in writing, shall be mailed by registered or certified first class mail, postage prepaid, and shall be deemed received 48 hours after such notice has been posted for mailing addressed the party to whom notice is being given at its address first above shown or to such other address as AC or Tramiel shall have furnished to the other in writing.

17. MISCELLANEOUS

17.1. Enforcement. This Agreement shall be construed and enforced in accordance with the laws of the State of California. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original.

17.2. Assignment of Agreement. Neither party shall sell, transfer, assign, pledge, encumber or otherwise dispose of this Agreement or any right or duty granted hereunder without the prior written consent of the other party hereto. Notwithstanding the foregoing, AC may assign this Agreement to a successor to the business and assets of AC, or to any wholly-owned subsidiary or parent of AC.

17.3. Inurement. This Agreement is for the benefit of the parties hereto and, except as provided herein, shall be binding upon their successors, assignees and surviving entities of any merger, sale, consolidation or reorganization.

17.4. Severability. In the event that any of the terms of this Agreement becomes or is declared to be illegal by any court or tribunal of competent jurisdiction, such terms or term shall be null and void and shall be deemed deleted from this Agreement, and all the remaining terms of this Agreement shall remain in full force and effect.

17.5. Headings. The descriptive headings of the several Articles of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

17.6. Attorneys' Fees. In the event of any controversy or claim arising out of or relating to this Agreement or the breach thereof, the prevailing party shall be entitled to recover reasonably attorneys' fees and costs as approved by the court.

17.7. Changes in Writing. This Agreement or any part thereof may be changed or waived only by an instrument in writing properly executed by the party against which enforcement of such change or waiver is sought.

17.8. Breach. Any waiver or failure to compel cures of any breach or failure to compel performance by any party of any of the provisions of this Agreement shall not constitute waiver or authorization of any subsequent breach or failure of performance of such provision or any other provision of this Agreement.

17.9. This agreement constitutes the entire understanding and agreement of the parties hereto with respect to the subject matter hereof and supersedes all prior agreements or understandings, written or oral, between the parties with respect thereto.

18. AMENDMENTS.

This Agreement may be amended or modified only by consent of both parties. This Agreement may be amended or modified in whole or in part, but any amendment or modification shall be in writing and shall be signed by both parties.

This Agreement constitutes the entire Agreement between the parties hereto, and any term of this Agreement may be amended and observance of any term of this Agreement may be amended and the Observance of any term hereof may be waived (either generally or in particular instance and either retroactively or prospectively) only upon written agreement between Tramiel and AC.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized representatives.

ATARI CORP.

By: _____ _____

Jack Tramiel

mtd/FP286

Schedule A

Statement of Work

Project	Estimated Completion Date	Budget ($000)

mtd/FP286

306

Exhibit 10.3

ATARI, CORP.

1986 STOCK OPTION PLAN

1. Purpose of the Plan. Under this 1986 Stock Option Plan (the "Plan") of Atari, Corp., a Nevada corporation (the "Company"), Options may be granted to purchase shares (the "Shares") of the Company's common stock, $1.00 par value per share ("Common Stock"). The Plan provides for Stock Options which qualify as Incentive Stock Options ("Incentive Options") under Section 422A of the Internal Revenue Code (the "Code") as well as Options which do not so qualify ("Non-Qualified Options").

2. Stock Subject to the Plan. The maximum number of Shares of Common Stock that may be subject to Options granted hereunder shall be one million (1,000,000) Shares of Common Stock, subject to adjustments under Section 9 below. Shares of Common Stock subject to the unexercised portions of any Options granted under this Plan which expire, terminate or are cancelled may again be subject to either Incentive or Non-Qualified Options under the Plan.

3. Eligible Persons. The persons eligible to receive a grant of Incentive Options under this Plan are any persons employed by the Company or by its parent or any of its subsidiaries on a salaried basis, including Directors of the Company who are also employees of any such entity. The persons eligible to receive a grant of Non-Qualified Options under this Plan are all persons eligible to receive Incentive Options and consultants to the Company and Directors of the Company who are not employed by the Company or by its parent or any of its subsidiaries. Notwithstanding the preceding sentences, no person who is a member of the committee, if any, appointed pursuant to Section 12 below (the "Committee") shall be eligible to receive Incentive or Non-Qualified Options under this Plan.

4. Minimum Exercise Price. The exercise price for each Incentive Option granted hereunder shall not be less than 100% of the fair market value of the Common Stock subject to such Option at the date of the grant of such Option, provided, however, that the option price of an Incentive Option shall not be less than 110% of the fair market value of such Common Stock on the date such Option is granted if it is granted to an individual then owning (after the application of the family and other attribution rules of Section 425(d) of the Code) more than 10% of the total combined voting power of all classes of stock of the Company or any subsidiary or parent corporation.

For purposes of determining the fair market value of the Common Stock under this Plan, if the Common Stock is not publicly traded, fair market value shall be determined by the Board of Directors of the Company (the "Board") or the Committee, and may be computed by any method as the Board or the Committee in good faith believes will reflect the fair market value of the Common Stock on such day. If the Common Stock is publicly traded, fair market value shall be the closing sale price per share of the Common Stock, for securities listed on a national securities exchange, or the average of the closing bid and asked price per share of the Common Stock, for securities quoted by NASDAQ, on the day in question (or, if such day is not a trading day or if no sales of Common Stock were made on such day, on the nearest preceding trading day on which sales of Common Stock were made), as reported in The Wall Street Journal, or if trading in the Common Stock is then not reported in The Wall Street Journal, at such closing sale or bid price as may then appear in what the Board or the Committee in its judgment then deems to be the most nearly comparable listing or reporting service.

5. Annual $100,000 Incentive Option Grant Limitation to any Employee. The aggregate fair market value of Shares for which an eligible employee may be granted Incentive Options in any calendar year under this Plan and under all other stock option plans of the Company, its parent and subsidiaries, if any, shall not exceed $100,000, plus any unused limit carryover to such year determined under Section 422A of the Code. The fair market value of the stock is determined as of the time each respective option is granted.

6. Payment. Payment for Common Stock purchased upon any exercise of an Option granted under this Plan shall be made in full by one or a combination of cash or, if the stock option agreement with respect to the option so provides, a promissory note having such terms as the Board or Committee shall, in its discretion, establish, delivered concurrently with such exercise, or, if the Board or the Committee shall have authorized it and if the Company is not then prohibited from purchasing or acquiring shares of Common Stock, shares of stock of the Company previously acquired by the optionee and delivered concurrently with such exercise, the shares so delivered to be valued on the basis of their fair market value on the date of exercise. If the Company is required to withhold an amount on account of any federal or state income tax imposed as a result of such exercise, the optionee shall pay such amount to the Company by check or in cash concurrently with the exercise of the Option.

7. Nontransferability. Any Option granted under this Plan shall by its terms be nontransferable by the optionee otherwise than by will or the laws of descent and distribution, and shall be exercisable, during the optionee's lifetime, only by the optionee.

8. Exercise of Options; Withholding. Each Incentive Option shall not be exercisable while there is outstanding (within the meaning of Section 422A(c)(7) of the Code) any Incentive Option which was granted before the granting of such Incentive Option to the optionee to purchase common stock in the Company or in a corporation which (at the time of granting of such Incentive Option) is a parent or subsidiary corporation of the Company, or is a predecessor corporation of any of such corporations.

If the Company, or a parent or a subsidiary of the Company, is required to withhold an amount on account of any present or future federal or state tax imposed as a result of the exercise of any Option, the optionee shall pay to the Company the amount of such withholding simultaneously with the exercise of the Option.

9. Adjustments. If the outstanding Shares of Common Stock then subject to this Plan are increased or decreased, or are changed into or exchanged for a different number or kind of shares or securities, as a result of one or more reorganizations, recapitalizations, stock splits, reverse stock splits, stock dividends and the like, appropriate adjustments shall be made in the number and/or type of shares or securities for which Options may thereafter be granted under this Plan and for which Options then outstanding under this Plan may thereafter be exercised. Any such adjustments in outstanding Options shall be made without changing the aggregate exercise price applicable to the unexercised portions of such Options.

10. Maximum Option Term. No Option granted under this Plan may be exercised in whole or in part more than ten years after its date of grant; provided, however, that an Incentive Option granted to an individual owning (after the application of the family and other attribution rules of Section 425(d) of the Code), at the time such Option was granted, more than 10% of the total combined voting power of all classes of stock of the Company or any subsidiary or parent corporation shall expire no later than five years from the date such Incentive Option was granted.

11. Plan Duration. Options may not be granted more than ten years after the date of the adoption of this Plan by

the Board, or of shareholder approval thereof, whichever is earlier.

12. Administration. The Plan shall be administered by the Board or, in the discretion of the Board, by a committee selected by the Board of not less than three Board members, none of whom have been eligible within the 12 months prior to their appointment to receive stock, stock options, or stock appreciation rights pursuant to this Plan or any other plan of the Company or any of its affiliates. The Board may from time to time remove members from, or add members to, the Committee. Vacancies on the Committee, howsoever caused, shall be filled by the Board. The Committee may select one of its members as its chairman and shall hold its meetings at such times and places as it may determine. A majority of its members shall constitute a quorum. All determinations of the Committee shall be made by not less than a majority of its members. Any decision or determination reduced to writing and signed by all the members of the Committee shall be fully as effective as if it had been made by a majority vote at a meeting duly called and held. The Committee may appoint a secretary, shall keep minutes of its meetings and shall make such rules and regulations for the conduct of its business as it shall deem advisable.

The interpretation and construction by the Committee of any provisions of the Plan or of any Option granted hereunder shall be final and binding upon optionees and their respective successors, unless otherwise determined by the Board, in which case such determination of the Board shall be final and binding. No member of the Board or of the Committee shall be liable for any action taken, or determination made, in good faith. The Board or the Committee may from time to time adopt rules and regulations for carrying out the Plan and, subject to the provisions of the Plan, may prescribe the form or forms of the instruments evidencing any Option granted under the Plan.

Subject to the provisions of the Plan, the Board or the Committee shall have full and final authority in its discretion to select the persons to be granted an Option, to grant such Option, and to determine the number of shares to be subject thereto, whether the Option shall be an Incentive Option or a Non-Qualified Option, the Exercise Price, the terms of exercise, including any vesting provisions, the expiration date, any restrictions upon the transfer of Shares of Common Stock purchased upon the exercise of an Option, any conditions which the Optionee must fulfill in order to exercise an Option and such other terms and provisions thereof as it may authorize, each of which terms may be different for each

Option. The Board or the Committee may amend any existing stock option agreement under the Plan to accelerate the time or times that the Option granted therein becomes exerciseable.

13. Termination. Upon the dissolution or liquidation of the Company, upon a reorganization, merger or consolidation of the Company with one or more corporations as a result of which the Company is not the surviving corporation or as a result of which the outstanding shares of Common Stock are exchanged or converted into cash or property or securities not issued by the Company, or upon a sale of substantially all the property of the Company (any of which shall be deemed hereunder to constitute a "Terminating Transaction"), the Plan shall terminate. Any Option theretofore granted hereunder shall then terminate, unless provision is made in writing in connection with such Terminating Transaction for the continuance of the Plan and/or for the assumption of the Options theretofore granted, or the substitution for such Options of options covering the securities of a successor employer corporation, or a parent or a subsidiary thereof, with appropriate adjustments as to the numbers and types of shares and prices, in which event the Plan and Options theretofore granted shall continue in the manner and under the terms so provided. If the Plan and Options terminate pursuant to the foregoing sentence, all persons entitled to exercise any unexercised portion of Options then outstanding shall have the right, at such time prior to the consummation of the Terminating Transaction as the Company shall designate, to exercise the unexercised portion of their Options then exercisable. In connection with such a Terminating Transaction, the Board or the Committee may also, but need not, provide for the exercise, on an accelerated basis, of some or all of the then outstanding Options which would otherwise not then be exercisable.

14. Government and Stock Exchange Regulations. The Company shall not be required to issue any Shares of Common Stock upon the exercise of any Option unless and until any then applicable requirements of the Securities Act of 1933, as amended (the "Act"), the California Corporate Securities Law of 1968, as amended, and any other applicable federal or state laws and regulations thereunder, and of any exchanges upon which the Common Stock may be listed, shall have been fully complied with.

Subject to the preceding paragraph, upon the exercise of an Option at a time when there is not in effect a registration statement under the Act relating to the Shares of Common Stock issuable upon exercise thereof and available for delivery a prospectus meeting the requirements of Section 10(a)(3) of the Act, or, if the rules or interpretations of the

Securities and Exchange Commission so require, such Shares may be issued only if the holder of such Option represents and warrants in writing to the Company that such Shares are being acquired for investment and not with a view to the distribution thereof, and any certificates issued upon exercise of the Option shall bear appropriate legends setting forth the restrictions on transfer of such Shares.

15. Amendment or Termination of the Plan. The Board may alter, amend, suspend or terminate this plan; however, except as otherwise provided in this Plan, no such action shall deprive an optionee, without his or her consent, of any Option or any of the rights thereunder granted to the optionee pursuant to this Plan. Except as herein provided, no such action of the Board, unless taken with the approval of the shareholders of the Company holding a majority of its voting power, may:

(a) increase the total number of shares reserved for the purposes of the Plan, other than pursuant to adjustments under Section 9 hereof;

(b) reduce the minimum permissible exercise price for Options;

(c) extend the termination date of the Plan set forth herein; or

(d) alter the class of persons eligible to receive Options under the Plan.

16. Effectiveness of the Plan. The effective date of the Plan is January 1, 1986. However, implementation of the Plan is subject to the qualification of the grant of Options and the issuance of the underlying Shares of Common Stock by the California Department of Corporations and to approval of the Plan by shareholders of the Company holding a majority of its voting power within twelve months before or after the effective date of the Plan specified above. Options may be granted under the Plan prior to such qualification and approval, but each Option so granted shall expressly provide that it is subject to the aforementioned conditions and in no event may any such Option be exercised in whole or in part prior to such qualification and approval.

Exhibit 10.4

Option No. _____

ATARI, CORP.

INCENTIVE STOCK OPTION AGREEMENT
UNDER THE 1986 STOCK OPTION PLAN

THIS AGREEMENT is made as of _____, 19__, between Atari, Corp., a Nevada corporation (the "Company and _____ (the "Optionee").

RECITALS

The Board of Directors of the Company (the "Board") or the Committee (the "Committee") administering the Company's 1986 Stock Option Plan (the "Plan") has granted to the Optionee on _____, 19__, as a matter of separate inducement in connection with the Optionee's engagement with the Company or its parent or a subsidiary thereof, if any, and not in lieu of any salary or other compensation for the Optionee's services, an option (the "Option") to purchase shares of the common stock of the Company ("Common Stock") on the terms and conditions set forth herein. This Option is intended to qualify as an incentive stock option under Section 422A of the Internal Revenue Code (the "Code").

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and of the mutual covenants set forth herein and other good and valuable consideration, the parties hereto agree as follows:

1. SHARES OPTIONED; OPTION PRICE. The Company hereby grants to Optionee the right and option to purchase all or any part of an aggregate of _____ shares of Common Stock, at the price of $_____ per share (which shall not be less than the fair market value on the date hereof), on the terms and conditions set forth herein.

2. OPTION TERM; TIMES OF EXERCISE. The Option term shall end on _____ (the "Termination Date") which in no case shall be greater than ten (10) years from the date of grant of this Option.

This Option shall be exercisable in installments, as follows:

(a) As to one-fifth of the shares covered by this Option, any time after _____, 19__;

(b) As to an additional one-fifth of the shares covered by this Option, any time after _____, 19__;

(c) As to an additional one-fifth of the shares covered by this Option, any time after _____, 19__;

(d) As to an additional one-fifth of the shares covered by this Option, any time after _____, 19__; and

(e) As to the remaining one-fifth of the shares covered by this Option, any time after _____, 19__.

Installments not exercised shall accumulate and be exercisable at any time on or before the Termination Date.

This Option is not exercisable while there is outstanding (within the meaning of Section 422A(c)(7) of the Code) any incentive stock option (within the meaning of Section 422A thereof) which was granted before the granting of this Option to Optionee to purchase stock in the Company or in a corporation which (at the time of grant of such option) is a parent or subsidiary corporation of the Company, or is a predecessor corporation of any such corporations.

3. RIGHT TO PURCHASE AS AFFECTED BY TERMINATION OF EMPLOYMENT OR DEATH. If Optionee ceases to be employed by the Company or its parent or subsidiary because of Optionee's discharge for cause, this Option shall expire concurrently with such cessation of employment. If Optionee ceases to be employed by the Company or its parent or subsidiary for any reason other than Optionee's death, disability (within the meaning of Section 105(d)(4) of the Code) or discharge for "cause", within a five-year period from the date hereof, or during the five-year period ending upon the end of the tenth year from the date hereof, this Option, subject to earlier termination pursuant to Paragraph 2 hereof, shall expire sixty (60) days and three months thereafter, respectively, for such two periods, and during either such period after Optionee ceases to be an employee, this Option shall be exercisable only as to those shares, if any, with respect to which Optionee could have exercised the Option as of the date of such cessation of employment. If Optionee shall become disabled or die while in the employment of the Company or its parent or subsidiary, Optionee or, in the case of death, the person or persons to whom Optionee's rights under the Option shall have passed by will or by the applicable laws of descent and distribution, shall have the right, at any time within twelve (12) months after the date of Optionee's termination of employment, to exercise such Option as to those shares, if any,

with respect to which Optionee could have exercised the Option as of the date of Optionee's termination of employment; provided, however, that all rights under such Option shall expire in any event on the Termination Date.

"Cause", for the purpose of this Agreement, shall mean conduct, as determined by the Company's Board of Directors, involving one or more of the following: the commission of an act of embezzlement, fraud or dishonesty, the deliberate disregard of the rules of the Company which resulted in loss, damage or injury to the Company, the unauthorized disclosure of any trade secret or confidential information of the Company, or the commission of an act which constitutes unfair competition with the Company or which induces any customer of the Company to break a contract with the Company.

4. EXERCISE; PAYMENT FOR AND DELIVERY OF STOCK. This Option may be exercised only by Optionee or his or her transferees by will or the laws of descent and distribution. This Option may be exercised by giving ten (10) days' written notice of exercise to the Company specifying the number of shares to be purchased and the total purchase price therefor, accompanied by one or a combination of (a) a cashier's or certified bank check to the order of the Company, (b) shares of stock of the Company previously acquired by Optionee, or (c) a promissory note bearing such interest rate and other terms as the Board or the Committee shall, in its discretion, establish, in payment of such price. Any such previously acquired shares shall be valued at their fair market value on the date of exercise. If in the opinion of the Company's counsel the Company is required to withhold on account of any present or future federal or state tax imposed as a result of such exercise, the notice of exercise shall be accompanied by a cashier's or certified bank check to the order of the Company in payment of the amount of such withholding.

5. RIGHTS WITH RESPECT TO THE SHARES UPON TERMINATION OF EMPLOYMENT OR DEATH.

5.1 Voluntary Termination of Employment. If Optionee shall cease to be employed by the Company prior to that date which is five years from the date hereof due to his or her voluntary resignation from employment with the Company or termination for "cause", the Company or its nominee shall have the right to repurchase all, or any portion, of the shares of Common Stock purchased by Optionee upon the exercise(s) of this Option for a per share purchase price which shall be the greater of (i) "book value per share" determined as of the end of the Company's fiscal quarter next preceding the date of resignation or termination, or (ii) the per share Option Price

set forth in Section 1 hereof, as adjusted from time to time pursuant to Section 7 hereof, plus interest at 9% per annum compounded annually from the respective dates upon which the Optionee acquired such shares upon the exercise of this Option until the date of Optionee's resignation or termination. "Book value per share" for the purpose of this Agreement shall be the tangible net worth (tangible assets less liabilities) of the Company as determined by the Company in accordance with generally accepted accounting principles, consistently applied, divided by all of the then-outstanding shares of Common Stock.

5.2 Involuntary Termination of Employment Other Than for Cause. If Optionee shall cease to be employed by the Company prior to that date which is five years from the date hereof due to an involuntary termination of his or her employment by the Company other than for "cause", (1) Optionee may elect to (i) retain all shares of Common Stock purchased by Optionee upon the exercise(s) of this Option or (ii) require that the Company purchase, and the Company agrees to purchase, directly or through a nominee, to the extent the Company is able to do so under applicable law, all shares of Common Stock purchased by Optionee upon the exercise(s) of this Option for a price equal to the greater of (i) "book value per share" determined as of the end of the Company's fiscal quarter next preceding the date of resignation, or (ii) the per share Option Price set forth in Section 1 hereof, as adjusted from time to time pursuant to Section 7 hereof, plus interest at 9% per annum compounded annually from the respective dates upon which Optionee acquired such shares upon the exercise of this Option until the date of Optionee's resignation or termination. Termination of employment due to death or physical or mental disability which the Board of Directors of the Company determines would be likely to materially impair Optionee from performing the services performed by Optionee prior to such disability shall be considered an involuntary termination of employment other than for "cause".

5.3 Exercise of Rights. Upon Optionee's ceasing to be employed by the Company in a manner which results in the Company, or its nominee, having the right to repurchase some or all of the shares of Common Stock purchased by Optionee upon the exercise(s) of this Option, the Company shall give written notice to Optionee of its intent to exercise such right within seven months of the date of Optionee's termination of employment with the Company, or within seven months of the date that the Company is notified in writing of such termination by Optionee in the event of Optionee's voluntary resignation. Upon Optionee's election to exercise his or her right to require the Company to repurchase all of the shares of Common Stock purchased by Optionee upon the exercise(s) of this

Option, Optionee shall give written notice to the Company of his or her election within seven months of the date of Optionee's termination of employment with the Company. Within 30 days of the Company's or Optionee's giving of the notice required above, the Company shall deliver to Optionee its certified or cashier's check in the full purchase price for the Common Stock then being purchased against Optionee's delivery of certificates endorsed to the Company or its nominee representing such Common Stock.

6. RIGHTS IN SHARES BEFORE ISSUANCE AND DELIVERY. Neither Optionee nor Optionee's transferees by will or the laws of descent and distribution shall be, or have any rights or privileges of, a shareholder of the Company with respect to any shares issuable upon exercise of this Option, unless and until certificates representing such shares shall have been issued and delivered.

7. ADJUSTMENTS IN STOCK. Subject to the provisiOns of the Plan, if the outstanding shares of the Company of the class subject to this Option are increased, or decreased, or are changed into or exchanged for a different number or kind of shares or securities as a result of one or more reorganizations, recapitalizations, stock splits, reverse stock splits, stock dividends and the like, appropriate adjustments, to be conclusively determined by the Board or the Committee, shall be made in the number and/or type of shares or securities subject to this Option and the Option Price, so that the total purchase price of the shares then subject to this Option shall remain unchanged.

8. NONTRANSFERABILITY OF OPTION. This Option is not transferable otherwise than by will or the laws of descent and distribution. This Option shall not be otherwise transferred, or assigned, pledged, hypothecated or otherwise disposed of in any way, whether by operation of law or otherwise, and shall not be subject to execution, attachment or similar process. Upon any attempt to transfer this Option otherwise than by will or the laws of descent and distribution or to assign, pledge, hypothecate or otherwise dispose of this Option, or upon the levy of any execution, attachment or similar process upon this Option, this Option shall immediately terminate and become null and void.

9. HOLDING OF STOCK BY OPTIONEE. By accepting this Option, Optionee, on behalf of Optionee and his or her transferees by will or by the laws of descent and distribution, represents and agrees that all securities acquired upon exercise of this Option will be acquired for investment and not for resale and distribution, and that, as a condition precedent

to each exercise of any portion of the Option, the person entitled to acquire securities thereby shall furnish evidence satisfactory to the Company (including a written and signed representation) to the effect that the securities so acquired are being acquired in good faith for investment and not for resale or distribution, and such person will agree to hold the Company harmless on account of any reasonable action taken by the Company to prevent the resale or distribution of any portion of such securities. In the event that counsel for the Company shall advise the Company that such evidence and such hold-harmless agreement shall not be necessary under the law and/or the circumstances as the same may exist at the time of such exercise, the Company, in its sole and absolute discretion, may waive the furnishing of such evidence and/or agreement. The Company may require, as an additional condition precedent to each exercise of any portion of the Option, that the person entitled to acquire securities thereby shall furnish, in writing, information satisfactory to the Company concerning such person's prior transactions involving securities of the Company, if any.

This Paragraph 9 notwithstanding, no securities issuable upon exercise of this Option shall be issued and delivered unless and until, in the opinion of counsel for the Company, such securities may be issued and delivered without causing the Company to be in violation of or incur any liability under any federal, state or other applicable securities laws, any requirement of any listing agreement with an exchange upon which the Company's securities are traded to which the Company may be a party, or any other requirement of law or of any regulatory body having jurisdiction over the Company. All certificates representing shares issued upon exercise of this Option shall bear a legend describing the restrictions imposed by this Agreement. This legend requirement shall terminate at such time as the Common Stock is listed on any national or regional stock exchange, or there is an established market for the Common Stock in the over-the-counter market and the Common Stock is listed in the pink or white sheets of the National Association of Securities Dealers Automated Quotation Service or a comparable service.

10. TERMINATING TRANSACTIONS. Upon the dissolution or liquidation of the Company, upon a reorganization, merger or consolidation of the Company with one or more corporations as a result of which the Company is not the surviving corporation or as a result of which the outstanding shares of Common Stock are exchanged or converted into cash or property or securities not issued by the Company, or upon a sale of substantially all the property of the Company (any of which shall be deemed hereunder to constitute a "Terminating Transaction"), this Option shall

terminate, unless provision is made in writing in connection with such Terminating Transaction for the continuance of this Option or for the assumption of this Option, or the substitution for this Option of options covering the securities of a successor corporation, or a parent or a subsidiary thereof, with appropriate adjustments as to the numbers and types of shares and prices, in which event this Option shall continue in the manner and under the terms so provided. If this Option terminates pursuant to the foregoing sentence, Optionee or any other person entitled to exercise any unexercised portion of this Option shall have the right, at such time prior to the consummation of the Terminating Transaction as the Company shall designate, to exercise the unexercised portion of this Option then exercisable. In connection with such a Terminating Transaction, the Board or the Committee may also, but need not, provide for the exercise, on an accelerated basis, of some or all of this Option which would otherwise not then be exercisable.

11. NOTICE OF SALES. If Optionee sells or otherwise disposes of any shares of Common Stock received upon exercise of this Option earlier than either two years from the date of this Agreement or one year from the date of acquiring the shares disposed of upon the exercise of this Option, Optionee shall promptly give written notice of such sale of disposition to the Company and the consideration received.

12. NOTICES. Any and all notices, designations, consents, offers, acceptances, or other communication provided for herein shall be given in writing by personal service or by registered or certified mail, postage prepaid, which shall be addressed to the Company in care of its Secretary at its principal office and to Optionee at his or her address appearing following his or her signature below (or at such other address as either party hereto shall subsequently notify the other in the manner provided in this paragraph). Each notice shall be deemed to be received on the day delivered in the event of personal service or five business days after being mailed in the manner provided above in the event of mailing.

13. STOCK OPTION PLAN. This Option is subject to all of the terms and conditions of the Company's 1986 Stock Option Plan as the same shall be amended from time to time in accordance with the terms thereof, but no such amendment shall adversely affect Optionee's right under this Option.

14. QUALIFICATION AND APPROVAL OF OPTION. This Agreement shall be effective as of the date of its making as set forth above, subject to the qualification of the grant of this Option and the issuance of Common Stock by the California

Department of Corporations and to approval of the Plan by shareholders of the Company holding a majority of its voting power within twelve months before or after the effective date of the Plan. In no event may this Option be exercised in whole or in part prior to such qualification and approval.

15. LAWS APPLICABLE TO CONSTRUCTION. This Agreement shall be construed and enforced in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed on its behalf by its President or one of its Vice Presidents and to be sealed with its corporate seal, attested by its Secretary or one of its Assistant Secretaries, and Optionee has hereunto executed this Agreement on the day and year first above written.

ATARI, CORP.

By:_____
Title:_____

ATTEST:

_____
Title:_____

OPTIONEE

_____
(signature)

_____
(typed or printed name)

Street Address

_____

_____
City and State

_____
Social Security No.

By his or her signature, the undersigned spouse of Optionee agrees to be bound by all the terms and conditions of the foregoing Agreement.

_____
(signature)

_____
(typed or printed name)

Exhibit 10.6

SETTLEMENT AGREEMENT AND MUTUAL RELEASE

THIS IS AN AGREEMENT by and between TANDON CORPORATION (hereinafter "TANDON") and ATARI CORP. (hereinafter "ATARI") with offices at 1196 Borregas Avenue, Sunnyvale, CA, whereby the above-mentioned parties hereby extinguish certain of their mutual rights and claims, arising from their disputes and differences as to the rights, duties, and obligations each has arising from certain of their relationships prior to the execution of this Agreement.

NOW THEREFORE, in consideration of the mutual covenants herein contained , the settlement of certain claims between the parties, and other good and lawful consideration, the parties agree as follows:

1. Payment by ATARI CORP.: ATARI shall pay TANDON and be credited in the following amounts, the settlement total being $10,559,734:

a. $2,500,000 payment to Tandon upon execution of this agreement; and

b. $5,000,000 credit to ATARI upon the purchase of the Hong Kong facility as provided in Section 2 hereof; and

c. $1,000,000 credit to ATARI upon the purchase by TANDON of 2,000,000 pieces of 64K D-RAM chips (150 nanosecond) at a purchase price of $.50 per piece as provided in Section 3; and

d. ATARI shall pay TANDON $2,059,734 (subject to increase as provided in paragraphs 2(e) and 4(a) and 4(b) hereof) in twelve (12) equal monthly installments on the 15th of each month, commencing on January 15, 1986, or in the first month following delivery on a COD basis (or TANDON'S willingness and ability to so deliver in the absence of actual procurement by Agreement), of the first production units of the 3.5 inch hard disk, whichever is earlier.

2. TANDON Purchase of ATARI Hong Kong Printed Circuit Board Facility: TANDON (or a designated TANDON Subsidiary) will purchase ATARI'S Printed Circuit Board Production Facility located in Hong Kong (the "PCB Facility"). The consideration to be furnished by TANDON shall be solely the cancellation of $5,000,000 (U.S.) of indebtedness of ATARI to TANDON included in the settlement total, such that TANDON shall credit $5,000,000 against the settlement total upon the closing of such purchase. Such purchase obligation of TANDON shall be subject to the following conditions:

a. The purchase shall be implemented by either a sale of leasehold interests and improvements and other assets or by sale of all of the stock of Advanced Circuits Limited ("ACL"), upon mutual agreement. All ownership and leasehold interests and estates constituting the PCB Facility shall be fully assignable pursuant to such purchase of assets or transferrable in connection with a sale of ACL stock, and all such leasehold interests shall contain terms and conditions reasonably necessary for continued operaton of the PCB Facility by TANDON.

b. Neither TANDON nor any of its subsidiaries shall have any responsibility for any debts, liabilities or obligations of ATARI or Advanced Circuits Limited in connection with such purchase.

c. TANDON, ATARI and Advanced Circuits Limited shall forthwith enter into a definitive agreement containing customary representations and warranties, covenants, conditions and indemnities as are contained in purchase agreements of such nature consistent with the terms of this Agreement. TANDON shall prepare such agreement and deliver it to ATARI as soon as practical for review, negotiation, approval and execution. The definitive agreement shall provide for a closing of such purchase no later than December 20, 1985, subject only to any unavoidable delay necessitated by legal matters such as filings, publications, etc.

d. ATARI shall retain ownership of any and all raw materials, work in process, and finished products (collectively "Inventory") which have been procured by ACL for use in ATARI end products. The parties shall in good faith mutually agree upon such of the Inventory as shall be excluded from the purchase pursuant to this provision.

e. In the event that such purchase fails to close on or prior to December 20, 1985 by reason of TANDON's failure to use its diligent best efforts to cause such closing to so occur, ATARI at its option may (upon written notice to TANDON) elect to sell the PCB Facility to another bona fide purchaser in which case ATARI shall be entitled to a credit, against the settlement amount, equal to the difference (in no event to exceed $5,000,000) between $5,000,000 and the aggregate amount demonstrated by TANDON to be available from a bona fide third party purchaser of the PCB Facility. If TANDON cannot demonstrate the availability of such a purchaser by December 20, 1985, then ATARI shall be entitled to the full $5,000,000 credit and TANDON shall be entitled to the PCB Facility. In the event of such third party sale, the settlement balance referred to in paragraph 1(d) shall be appropriately adjusted.

f. The obligations and liabilities of TANDON under this paragraph 2 (including those under paragraph e. above) shall not be severable from the payment obligations of ATARI specified in paragraph 1a. above. If for any reason (including the bankruptcy of ATARI) such payment obligations of ATARI cannot be enforced by TANDON (including if TANDON is required to return all or any

portion of such payment as a preference) TANDON's obligations under this paragraph 2 shall terminate.

3. TANDON Purchase of 64K D-RAM Chips. Subject only to the conditions specified herein, TANDON shall purchase from ATARI an aggregate of 2,000,000 pieces of 64K D-RAM chips (150 nanosecond) at a purchase price of $.50 per piece. The payment of such purchase price shall be effected by crediting such purchase price as specified above. Such purchase shall be effected pursuant to TANDON's standard form of purchase order. ATARI warrants that such D-RAM chips (a) have been manufactured by TriStar Semiconductor, Inc., (b) have date codes no earlier than September 1984, and (c) shall satisfy a 1% Average Quality Level, and ATARI will replace defects in excess of such 1% level. The purchase of such chips shall be subject to ATARI's compliance with the terms of this Agreement.

4. Returned Products: The $10,559,734 settlement total referred to above is specifically exclusive of an aggregate of 12,960 disk drive products shipped to ATARI and claimed by ATARI to have been returned to TANDON (the "Returned Products") aggregating $1,296,000 in original TANDON invoice amount. In settlement of the claims of TANDON and ATARI with respect to the Returned Products and all outstanding TANDON invoices therefor, the parties agree as follows:

a. If (after inspection) any of the products returned to TANDON are found not to be products manufactured by TANDON, or if physical count otherwise reveals the absence of any portion of the 12,960 TANDON units claimed to have been returned, the original TANDON invoice amount of any such products not manufactured by TANDON or otherwise not present in such Returned Products shall be added to the remaining balance described in paragraph 1.d above (and included in the principal amount of the promissory note described herein). Any such non-TANDON products shall be promptly reclaimed by ATARI at its expense.

b. With respect to such of the Returned Products that are products of TANDON manufacture, they shall be repaired to the extent requisite to meet original specifications and, promptly following such repair, shall be shipped to ATARI FOB TANDON's plant and re-billed at the original invoice amount therefor. Such original invoice amount shall, upon such shipment, be added to the remaining balance described in paragraph 1.d above (and included in the principal amount of the promissory note described herein).

5. Mutual Releases: Each of the above-mentioned parties, on behalf of itself, its subsidiaries, its heirs, executors, administrators, and agents, servants, stockholders, employees, representatives, assigns and successors hereby fully releases and

discharges the other party and its subsidiaries, its heirs, executors, administrators, and agents, servants, stockholders, employees, representatives, assigns and successors from all rights, claims, and actions which each party now has against the other party arising out of goods sold and delivered between July 1, 1984 and the date of this Agreement. The parties expressly agree that such release shall not extend to obligations under ATARI Purchase Order C46087N for 63,608 units of unshipped product.

6. Modification, amendment: The parties hereto may, by written agreement, make any modification or amendment of this Agreement. This Agreement shall not be modified or amended except pursuant to an instrument in writing executed and delivered on behalf of all of the parties hereto.

7. Confidential Agreement: The terms of this Agreement and the Agreement itself, are confidential and are not to be disclosed to any third party, without the written consent of all parties to this Agreement. If a party to this Agreement is requested or ordered by court process to disclose the terms of this Agreement and/or the Agreement itself, the party will give prompt notice to the other parties to this Agreement to enable those parties to take any action they deem appropriate to prevent or condition disclosure. Notwithstanding the foregoing (i) the parties may make such disclosure of the terms of this Agreement as are required by the reporting requirements of federal and state securities laws and by applicable accounting principles and standards, and (ii) any party may make such disclosure of the terms of this Agreement as may be required in connection with any action or proceeding commenced to enforce any obligation arising under this agreement provided that such disclosure will be under seal unless otherwise ordered by the court in such action or proceeding.

8. Counterparts: This Agreement may be executed in any number of counterparts, each of which shall be an original and all of which shall constitute together but one and the same document.

9. Other Documents: In furtherance of the foregoing, as soon as practical upon TANDON's request, ATARI will execute (a) promissory notes, in standard and customary form, in principal amounts equal to the respective parts of the settlement amounts referenced in paragraphs 1(b), 1(c), and 1(d), respectively, with such principal bearing no interest and requiring repayment in accordance with the foregoing provisions subject to acceleration of all installments upon default which has gone uncured within a specified notice period, (b) a security agreement, in customary and standard form, securing all unpaid portion by all property of ATARI which has been or may hereafter be purchased from TANDON or its subsidiaries, and (c) Financing Statements on Form UCC, for filing

with the California Secretary of State and other appropriate governmental offices, perfecting the security interest created by such security agreement.

10. Notice: Any notice, report or demand required, permitted or desired to be given pursuant to any of the provisions of this Agreement shall be deemed to have been sufficiently given, served or received for all purposes if hand delivered or sent by Telex, as follows:

If to ATARI CORP., at:

1196 Borregas Avenue
Sunnyvale, CA 94086
Attn: Sam Tramiel,
President

with a copy to:

Atari Corp.
Legal Department
1196 Borregas Avenue
Sunnyvale, CA 94086

If to TANDON at:

20320 Prairie Str.
Chatsworth, CA 91311
Attn: D.J. Trafecanty
Vice President

with a copy to

Lawrence Weeks, Esq.
Riordam, Caps,
Carbone & McKenzie
5743 Corsa Avenue
Suite 116
Westlake Village, CA 91362

ATARI CORP.

By: _____

Date: Sept 12, 1985

TANDON CORPORATION

BY: _____

Date: 9-12-85

0629L
9-12-85

Exhibit 10.7

LEASE AGREEMENT

between

HUMBOLDT COURT ASSOCIATES SEVEN

and

ATARI, INC.
1196 Borregas Avenue
Sunnyvale, CA 94086

45,709 Sq.Ft.

MODIFIED NET SINGLE TENANT LEASE

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MODIFIED NET SINGLE TENANT

LEASE AGREEMENT

1. PARTIES

THIS LEASE, dated July , 1980, is entered into by and between HUMBOLDT COURT ASSOCIATES SEVEN, a California general partnership, whose address is c/o CPS & Associates, Inc., 1153 Bordeaux Drive, Sunnyvale, CA 94086 (hereinafter referred to as Landlord), and ATARI, INC., a wholly owned subsidiary of Warner Communications, Inc., a Delaware corporation, whose address is 1265 Borregas Avenue, Sunnyvale, CA 94086 (hereinafter referred to as Tenant), and shall be effective on the date set forth below.

2. DEFINITIONS

As used in this Lease:

A. Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, upon the terms, conditions and covenants hereinafter set forth, those certain premises (hereinafter referred to as the "Premises"), consisting of that real property, together with all buildings and improvements thereon and appurtenances thereto, now consisting of one (1) building(s) on approximately 2.664 acres and containing a total building area of approximately 45,709 square feet, located at 1196 Borregas Avenue, in the City of Sunnyvale, County of Santa Clara, California, all as more particularly shown and described on Exhibit "A" attached hereto and made a part hereof.

B. The term "Outside Areas" shall mean all areas and facilities within the Premises except for the building provided and designated by Landlord for the general use and convenience of Tenant including, without limitation, parking areas, access and perimeter roads, sidewalks, landscaped areas, service areas, trash disposal facilities, and similar areas and facilities subject to the reasonable rules and regulations and changes therein from time to time, promulgated by Landlord governing the use of said Outside Areas.

3. TERM

A. The term of this Lease shall be a period of ten (10) years and zero (0) months, commencing on December 1, 1980 and, unless sooner terminated as provided herein, terminating on November 30, 1990, or ninety (90) days following Landlord's receipt of a building permit from the City of Sunnyvale for the improvements provided for in paragraph #41 hereof, whichever is later.

B. Tenant agrees that if Landlord, for any reason whatsoever, is unable to deliver possession of the Premises on the commencement date set out in the foregoing Subparagraph A, Landlord shall not be liable to Tenant for any loss or damage therefrom, nor shall this Lease be void or voidable; but in such event the commencement, termination and all other dates of this Lease shall be extended to conform to the time of Landlord's tender of possession of the Premises to Tenant, and Tenant shall not be obligated to pay rent or other sums due Landlord until possession of the Premises is tendered to Tenant. If for any reason whatsoever, except for causes within the control Tenant or acts of God, Landlord does not deliver possession of the Premises within thirty (30) s of the above scheduled commencement term of this lease, Tenant shall deduct from his rent igations an amount equal to twice the daily rental for each day of delay beyond that thirty) day period.

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4. RENT AND EXPENSES

A. Tenant shall pay in lawful money of the United States to Landlord for each month of the term of this Lease, Rent, including Property Insurance as provided for in Subparagraph 23A hereof, in the amount of TWENTY NINE THOUSAND NINE HUNDRED FIFTY AND NO/100---------- ($ 29,950.00-----) DOLLARS in advance on the first day of each calendar month without abatement, deduction, offset, prior notice or demand together with Outside Area Expenses which is FIVE HUNDRED SEVENTY AND NO/100 ($ 570.00---------) DOLLARS per month for the period December 1, 1980 to December 31, 1981 subject to periodic adjustment as provided in Paragraph 14.

B. Landlord hereby acknowledges receipt of Tenant's payment of Rent and Outside Area Expenses for the period December 1, 1980 to December 31, 1980 in the amount of THIRTY THOUSAND FIVE HUNDRED TWENTY & NO/100 ($30,520.00-----) DOLLARS.

C. If the commencement date is not the first day (1st) day of a month, or if the termination date is not the last day of a month, a prorated monthly installment based on a thirty (30) day month shall be paid at the then current rate for the fractional month during which the lease commences or terminates.

5. LATE PAYMENT CHARGES

Tenant acknowledges that late payment by Tenant to Landlord of rent and other charges provided for under this lease will cause Landlord to incur costs not contemplated by this lease, the exact amount of such costs being extremely difficult and impracticable to fix. Such costs include, without limitation, processing and accounting charges, and late charges that may be imposed on Landlord by the terms of any encumbrance and notes secured by any encumbrance covering the premises or late charges and penalties by virtue of late payment of taxes due on the premises. Therefore, if any installment of rent or any other charge due from Tenant is not received by Landlord ~~when due~~, Tenant shall pay to Landlord an additional sum of $1,000.00 as a late charge. The parties agree that this late charge represents a fair and reasonable estimate of the costs that Landlord will incur by reason of the late payment by Tenant. Acceptance of any late charge shall not constitute a waiver of Tenant's default with respect to the overdue amount, nor prevent Landlord from exercising any of the other rights and remedies available to Landlord.

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6. SECURITY DEPOSIT

Tenant has deposited with Landlord the sum of _____ ($_____) DOLLARS as security for the full and faithful performance of every portion of this Lease to be performed by Tenant. If Tenant defaults with respect to any provision of this Lease, including but not limited to the provisions relating to the payment of rent and other sums due or the repair of damage to the Premises caused by Tenant, Landlord may use, apply or retain all or any part of this security deposit for the payment of any rent or any other sum in default, the repair of such damage to the Premises or the payment of any other amount which Landlord may spend or become obligated to spend by reason of Tenant's default or to compensate Landlord for any other loss or damage which Landlord may suffer by reason of Tenant's default to the full extent permitted by law. If any portion of said deposit is so used or applied, Tenant shall within ten (10) days after written demand therefor, deposit cash with Landlord in an amount sufficient to restore the security deposit to its original amount, and Tenant's failure to do so shall be a material breach of this Lease. Landlord shall not be required to keep this security deposit separate from its general funds, and Tenant shall not be entitled to interest on such deposit. If Tenant shall fully and faithfully perform every provision of this Lease to be performed by it, the security deposit or any balance thereof shall be ~~returned to Tenant within thirty (30) days of termination of the Lease term~~.

7. HOLDING OVER

If Tenant remains in possession of all or any part of the Premises after the expiration of the term hereof, ~~with or~~ without the express or implied consent of Landlord, such tenancy shall be month-to-month only and shall not constitute a renewal or extension for any further term. In such event, rent shall be increased to an amount equal to one hundred fifty percent (150%) of the rent paid during the last month of the Lease term, and any other sums due hereunder shall be payable in the amount and at the time specified in this Lease, and such month-to-month tenancy shall be subject to every other term, condition, covenant and agreement contained herein.

8. TENANT IMPROVEMENTS

Landlord agrees to construct within the Premises certain Tenant Improvements as shown on Exhibit "B" attached hereto and made a part hereof, on the terms and conditions contained in "Addendum One" to this Lease.

9. ACCEPTANCE OF PREMISES

By taking possession of the Premises, Tenant accepts and acknowledges the Premises as being in good and sanitary order, condition and repair and accepts them in their then-existing condition, providing the buildings and improvements shall comply with all applicable laws, codes and ordinances. Acceptance of the Premises shall be

acceptance of any Tenant Improvements the construction of which was required pursuant to Paragraph 8. Tenant shall have the use and benefit of any warranties accruing to Landlord as a result of Landlord's construction of Tenant Improvements. Tenant acknowledges that neither landlord nor its agent(s) has made any representation or warranty as to the suitability or fitness of the Premises for the conduct of Tenant's business or for any other purpose, nor has Landlord agreed to undertake any modification, alteration or improvement to the Premises except as expressly provided in this Lease. The taking of possession of the Premises by Tenant shall conclusively establish that the Premises were at such time in satisfactory condition unless within ten (10) days after such date Tenant shall give Landlord written notice specifying in reasonable detail the respects in which the Premises were not in satisfactory condition.

10. USE OF THE PREMISES

A. Tenant shall use the Premises solely for office, engineering, light manufacturing, warehousing, showroom and other legal purposes and shall not use the Premises for any other purpose without obtaining the prior written consent of the Landlord. Tenant acknowledges that the Premises are subject to those certain covenants, conditions and restrictions recorded January 4, 1968 at Page 605, of Book 7985, of the Official Records of Santa Clara County, State of California, on (hereinafter referred to as the "CC&R's"), which are attached hereto as Exhibit "C". Tenant further acknowledges that it has read the CC&R's and knows the contents thereof. Throughout the term of this Lease, and any extensions thereof, Tenant shall faithfully and timely perform and comply with the CC&R's and any modification or amendments thereof and Tenant shall hold Landlord harmless and indemnify Landlord against any loss, expense, damage, attorneys' fees or liability arising out of the failure of Tenant to so perform or comply with the CC&R's.

B. Tenant shall not use the Premises or suffer or permit anything to be done in or about the Premises which will in any way conflict with any law, statute, zoning ordinance, regulation or requirement of duly constituted public authorities now in force or which may hereafter be in force, or Board of Fire Underwriters requirements or other similar body now or hereafter constituted relating to or affecting the condition, use or occupancy of the Premises. Tenant shall not commit any public or private nuisance or any other act or thing which might or would disturb the quite enjoyment of any occupant of nearby property. Tenant shall place no loads upon the floors, walls or ceilings in excess of the maximum designed load or which endanger the structure; place any harmful liquids in the drainage systems unless Tenant installs proper neutralizers; dump or store waste materials or refuse or allow such to remain in, on or about any part of the Premises outside of the building proper, except in the enclosed trash area provided; and Tenant shall not store or permit to be stored or otherwise placed any materials of any nature whatsoever outside the building proper. Tenant may store materials in areas specifically designated for storage, provided they are properly and attractively screened, in compliance with all applicable city ordinances and approved, in writing, by Landlord.

11. QUIET ENJOYMENT

Landlord convenants that it has the right to make this Lease and that Tenant upon performing the terms, conditions and covenants of this Lease, shall have quiet and peaceful possession of the Premises as against any person claiming the same by, through or under Landlord.

12. ALTERATIONS, ADDITIONS AND IMPROVEMENTS

A. Tenant shall not make or permit any alterations, additions or improvements in, on or about the Premises, except for non-structural alterations not exceeding Five Thousand Dollars ($5,000.00) in cost, without the prior written consent of Landlord, which consent shall not be unreasonably withheld. All alterations, additions or improvements shall be installed at Tenant's sole expense in compliance with all applicable laws and by a licensed contractor approved in writing by Landlord. Any such alterations, additions or improvements including but not limited to heating, lighting, electrical, air conditioning, partitioning, drapery and carpentry installations made by Tenant which become an integral part of the Premises or are affixed to the Premises so that it cannot be removed without material damage to the Premises shall be and become the property of Landlord upon installation and shall not be deemed trade fixtures; provided, however, that Landlord may as a condition of its giving consent require that Tenant, at Tenant's sole expense agree to remove any or all alterations, additions or improvements installed by Tenant and return the Premises to an undamaged condition prior to the termination of the Lease.

B. Tenant shall give Landlord at least twenty (20) days' prior written notice of the date of commencement of any construction of alterations, additions or improvements in, on or about the Premises, and Landlord shall have the right at any time to post notices of non-responsibility or similar notices on the Premises in connection therewith.

13. SURRENDER OF THE PREMISES

Upon the expiration or damage by acts of God, fire and earlier termination of the term of this Lease, Tenant shall surrender the Premises to Landlord in their condition existing as of the commencement of the term of this Lease, normal wear and tear excepted, ~~with all interior walls repainted, repaired or replaced, if marked or damaged, all carpets shampooed and cleaned, the air conditioning and heating equipment serviced and repaired by a reputable and licensed service firm, all floors cleaned and waxed, all to the reasonable satisfaction of Landlord.~~ Tenant shall remove all of Tenant's personal property and trade fixtures from the Premises, and all such property not so removed shall be deemed abandoned by Tenant. If landlord so elects, Tenant prior to the termination hereof shall remove at its expense any and all fixtures and improvements installed by it which would otherwise remain a part of the realty and restore the Premises to their condition as of the commencement of this Lease. If Tenant fails to remove any trade fixtures, equipment, or other personal property, or to remove any fixtures or improvements the removal of which is requested by Landlord, and such failure continues after the termination of this Lease, Landlord may retain such property and all rights of Tenant with respect to it shall cease, or Landlord may place such property in public storage for Tenant's account. Tenant shall be liable to Landlord for the costs of removal of any such trade fixtures, improvements or equipment of or installed by Tenant, the transportation and storage costs of same, the cost of returning the Premises to their condition as of the commencement of the term of this Lease, together with interest at ten percent (10%) per annum or the maximum rate allowed by law on all such expenses from the date of expenditure by Landlord. If the Premises are not so surrendered at the termination of this Lease, Tenant shall indemnify Landlord against all loss or liability resulting from delay by Tenant in so surrendering the Premises, including, without limitation, any claims made by any succeeding tenant or losses to Landlord due to lost opportunities to lease to succeeding tenants.

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14. OUTSIDE AREA EXPENSES

A. Landlord shall maintain all Outside Areas. The reasonable and subject to the control manner in which such areas shall be maintained and the expenditures therefore shall be ~~at the sole discretion~~ of Landlord. Landlord shall at all times have exclusive control of the Outside Areas and may at any time temporarily close any part thereof, exclude and restrain anyone from any part thereof, except the bona fide customers, employees and invitees of Tenant who use the Outside Areas in accordance with the rules and regulations as Landlord may from time to time promulgate, and may change the configuration or location of the Outside Areas. In exercising any such rights, Landlord shall make a reasonable effort to minimize any disruption to Tenant's business.

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B. Tenant agrees to pay all reasonable costs and expenses as may be paid or incurred by Landlord in maintaining and operating the Outside Areas (hereinafter referred to as the "Outside Area Expenses") during the term of this Lease. The Outside Area Expenses shall include, without limitation, the cost of labor, materials, supplies and services used or consumed in operating and maintaining the Outside Areas, including without limitation, the following:

1. Landscaping maintenance and replacement;

2. Repairing concrete walkways and paved parking areas;

3. Pest control services.

C. From and after the date the rental provided for in this Lease has commenced, Tenant shall pay Landlord on the first day of each calendar month of the term of this Lease an amount estimated by Landlord to be the Outside Area Expenses. The foregoing estimated monthly charge may be adjusted by Landlord at the end of any calendar quarter on the basis of Landlord's experience and reasonably anticipated costs. Any such adjustment shall be effective as of the calendar month next succeeding receipt by Tenant of written notice of such adjustment.

D. Within one hundred twenty (120) days following the end of each calendar year Landlord shall furnish Tenant a statement covering the calendar year just expired, showing the amount of said Outside Area Expenses for such calendar year and the payments made by Tenant with respect to such period as set forth in Paragraph 14(B). If Tenant's payments for said Outside Area Expenses do not equal the amount of said Outside Area Expenses, Tenant shall pay Landlord the deficiency within ten (10) days after receipt of such statement. If said payments exceed the actual Outside Area Expenses, Tenant shall be entitled to offset the excess against payments next thereafter to become due Landlord as set forth in said Subparagraph 14(D). There shall be appropriate adjustment of the Outside Area Expenses as of the commencement of rentals and expiration of the term of this Lease.

E. Failure of Tenant to pay any of the charges required to be paid under this Paragraph 15 shall constitute a default under the terms hereof in like manner as failure to pay rental when due.

15. REAL PROPERTY TAXES

A. Landlord shall pay all Real Property Taxes levied or assessed against the Premises during the term of this Lease. On or before April 1 and December 1 of each calendar year during the term of this Lease, Tenant shall pay to Landlord Real Property Taxes which become delinquent if not paid prior to April 10 and December 10, as set forth on the county tax assessor's tax statement for the Premises, provided Landlord shall give Tenant at least ten (10) days' prior written notice of the amount so due. Tenant shall pay any Real Property Tax not included within the county tax assessor's tax statement within ten (10) days after being billed for the same by Landlord. In the event this Lease or any extension thereof shall expire on a date earlier than the end of a fiscal tax year, Landlord shall prepare a statement setting forth the Real Property Taxes to the date of such expiration and the parties shall adjust the Tenant's obligation to pay the Real Property Taxes to the date of the expiration or termination of this Lease.

B. As used in this Lease, the term "Real Property Tax" shall include any form of assessment, license fee, rent tax, levy, penalty or tax (other than net income or franchise taxes) imposed by any authority having the direct or indirect power to tax including without limitation any city, county, state or federal government or any improvement or other district or division thereof, whether such tax is (i) determined by the area of the Premises or any part thereof or the rent and other sums payable hereunder by Tenant, including without limitation, any gross income or excise tax levied by any of the foregoing authorities with respect to receipt of such rent or other sums, or (ii) upon or with respect to any legal or equitable interest of Landlord in the Premises or any part thereof, or (iii) upon this transaction or any document to which Tenant is a party creating or transferring any interest in the Premises, or (iv) taxes of every kind and nature levied or assessed in lieu of, in substitution for, or in addition to, existing or additional taxes on the Premises whether or not now customary or within the contemplation of the parties.

C. Anything to the contrary notwithstanding contained herein, Tenant shall pay any increases in Real Property Taxes resulting from any and all improvements of any kind whatsoever placed in, on or about the Premises for the benefit of, at the request of, or by Tenant.

Tenant's liability to pay any Real Property Tax increase pursuant to this Paragraph 15 shall be pro-rated on the basis of a 365-day year to account for any fractional portion of a fiscal tax year included at the commencement or expiration of the term of the Lease. With respect to any assessments which may be levied against or upon the Premises, or which under the laws then in force may be evidenced by improvements or other bonds or may be paid in annual installments, only the amount of such annual installment (with appropriate proration for any partial year) and interest due thereon shall be included within the computation of the annual taxes and assessments levied against the Premises.

D. Tenant shall pay prior to delinquency all taxes assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Tenant contained in, on or about the Premises or elsewhere. When possible Tenant shall cause said trade fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real or personal property of Landlord.

E. Failure of Tenant to pay any of the charges required to be paid under this Paragraph 15 shall constitute a default under the terms hereof in like manner as failure to pay rental when due.

16. UTILITIES AND SERVICES

Tenant shall be responsible for and shall pay promptly, as the same become due and payable, all charges for water, sewer rental, gas, electricity, telephone, refuse pickup, janitorial service and all other utilities, materials and services furnished directly to or used by Tenant in, on or about the Premises during the term of this Lease, together with any taxes thereon. Landlord shall not be liable in damages or otherwise for any failure or interruption of any utility service or other service furnished to the Premises, except that resulting from the negligence or willful misconduct of Landlord, and no such failure or interruption shall entitle Tenant to terminate this Lease or withhold rent or other sums due hereunder.

17. BUILDING MAINTENANCE

Landlord shall keep in good order, condition and repair the structural parts of the building which structural parts include only the foundation exterior walls (excluding the interior of all walls and the exterior and interior of all windows, doors, plateglass, showcases and interior ceiling), roof and subflooring of the Premises, except for any damage thereto caused by negligence of Tenant or of Tenant's agents, employees or invitees, or by reason of the failure of Tenant to perform or comply with any terms, conditions or covenants in this Lease, or caused by alterations, additions or improvements made by Tenant or Tenant's agents, employees or contractors. It is an express condition precedent to all obligations of Landlord to repair and maintain that Tenant shall have notified Landlord in writing of the need for such repairs or maintenance.

18. TENANT'S OBLIGATION TO REPAIR AND MAINTAIN

A. Tenant shall at all times clean, keep and maintain in good order, condition and repair the Premises and every part thereof, including without limitation all plumbing and sewage facilities within the Premises, fixtures, interior walls, floors, ceilings, windows, store front, doors, entrances, plateglass, showcases, skylights, all electrical facilities and equipment, including without limitation lighting fixtures, lamps, fans and any exhaust equipment and systems, any automatic fire extinguisher equipment within the Premises, electrical motors and all other applicances and equipment of every kind and nature located in, upon or about the Premises, except as to such maintenance and repair which is the obligation of Landlord hereunder.** All glass, both interior and exterior, is at the sole risk of Tenant, and any broken glass shall promptly be replaced by Tenant at Tenant's expense with glass of the same kind, size and quality. Tenant shall obtain heating, ventilating and air conditioning systems preventive maintenance contract with bi-monthly service, which shall be subject to the reasonable approval of Landlord and paid for by Tenant, which shall provide for and include without limitation replacement of filters, oiling and lubricating of machinery, parts replacement, adjustment of drive belts, oil changes and other preventive maintenance; provided, however, that Tenant shall have the benefit of all warranties available to Landlord regarding the equipment in said systems. Tenant waives the provisions of Section 1941 and 1942 of the California Civil Code and any similar or successor law regarding Tenant's right to make repairs and deduct the expenses of such repairs from the rent due under this Lease.

B. Unless the same is caused by the negligence or willful misconduct of Landlord, Landlord shall not be liable to Tenant or to any other person for any damage occasioned by a failure in any utility system or by the bursting or leaking of any vessel or pipe in or about the Premises, or for any damage occasioned by water coming into the Premises or arising from the acts or neglect of occupants of adjacent property, or the public.

19. FIXTURES

Tenant shall, at its own expense, provide, install and maintain in good condition all trade fixtures and equipment required in the conduct of its business in the Premises. All fixtures and improvements other than Tenant's trade fixtures and equipment which

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** and except for all equipment, facilities, or items under warranty to the Landlord. Landlord shall obtain warranties for all plumbing and electrical equipment and facilities, to the extent such warranties are available.

are installed or constructed upon or attached to the Premises by either Landlord or Tenant shall become a part of the realty and belong to Landlord. If Tenant is not then in default, Tenant may, at the termination of this Lease or at any other time, remove from the Premises all trade fixtures, equipment and other personal property not permanently affixed to the Premises. Upon said removal, Tenant shall restore the Premises to its original condition at the time of occupancy.

20. LIENS

Tenant hereby indemnifies and agrees to hold Landlord free and harmless from all liens, claims and demands arising out of any work performed or materials supplied in, on or about the Premises by or on behalf of Tenant, its agents, employees or contractors. Tenant shall cause any such lien imposed to be released of record by payment or posting of a proper bond within ten (10) days after imposition of the lien or upon written request by Landlord.

21. LANDLORD'S RIGHT TO ENTER THE PREMISES

Tenant shall permit Landlord and its agents to enter the Premises at all reasonable times to inspect the same, to post notices of nonresponsibility and similar notices and "For Sale" signs, to submit the Premises to prospective purchasers, to make necessary alterations, additions, improvements or repairs, to discharge Tenant's obligation hereunder when Tenant has failed to do so within a reasonable time after written notice from Landlord, and at any reasonable time within one hundred and eighty (180) days prior to the expiration of this Lease or any extension thereof, to place upon the Leased Premises ordinary "For Lease" signs and to submit the Premises to prospective tenants. The above rights are subject to reasonable security regulations of Tenant. Landlord shall not post any such notices or signs, as set forth above, without the prior written consent of Tenant, not to be unreasonably withheld.

22. SIGNS

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Landlord shall provide for Tenant a sign location on the Premises. Tenant shall have no right to maintain a sign in any other location in, on or about the Premises and shall not display or erect any other sign, display or other advertising material that is visible from the exterior of the Premises. The size, height, design, color and other physical aspects of the sign shall be subject to the Landlord's approval, not to be unreasonably withheld, prior to installation. The cost of the sign and its maintenance shall be Tenant's sole expense.

23. LANDLORD'S INSURANCE

A. During the term of this Lease, Landlord shall maintain at its expense Personal Injury and Property Damage Insurance with combination single limit coverage of not less than One Million Dollars ($1,000,000.00) and Fire and Extended Coverage Insurance covering the Premises, excluding coverage of improvements or fixtures installed by or on behalf of Tenant or equipment, furniture, trade fixtures or other personal property of Tenant located in, on or about the Premises. Tenant shall reimburse Landlord for the cost of said Fire and Extended Coverage Insurance in the amount of TWO THOUSAND EIGHT HUNDRED EIGHTY AND NO/100 ($ 2,880.00) DOLLARS per year payable monthly in advance, as a portion of the rent paid to Landlord as defined in Subparagraph 4A hereof, in the amount of TWO HUNDRED FORTY AND NO/100 ($ 240.00) DOLLARS per month.

B. If Landlord's cost of said Fire and Extended Coverage Insurance is increased after the commencement of the term hereof due to an increase in the rates for said insurance or due to an increase in the valuation of the Premises or their replacement cost, Tenant shall pay the Landlord such increase within ten (10) days of notice of such increase.

24. TENANT'S INSURANCE

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A. Tenant shall, at its own expense, maintain in full force and effect at all times during the Lease term a policy or policies of ~~Personal~~ Bodily Injury and Property Damage Insurance naming Landlord as an additional insured, which will insure Tenant and Landlord against any and all liability for injury to or death of any person(s) and damage to property with respect to the Premises or arising out of the use, maintenance,

not more than once , original term or during any renewal

occupancy or condition of the Premises, with combined single limit coverage of not less than One Million Dollars ($1,000,000.00). The limits of such insurance shall not limit the liability of Tenant. If, during the term of this Lease Landlord determines that the amount of such coverage in not adequate, Tenant agrees to increase said coverage to such reasonable amount as Landlord shall deem adequate within thirty (30) days of Landlord's notice of such requirements.
during the remainder of each such term

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B. During the Lease term Tenant shall, at its own expense, maintain in full force and effect on all the merchandise, fixtures, equipment and leasehold improvements installed by Tenant in, on or about the Premises, a policy or policies of fire and all-risk coverage casualty insurance with a sprinkler leakage endorsement ~~and an inflation endorsement~~ attached insuring the same for the full replacement value thereof. As long as this Lease is in effect, the proceeds from any of such policies shall be used for the repair or replacement of such items so insured. Landlord shall have no interest in the insurance upon Tenant's merchandise, equipment, fixtures or leasehold improvements installed by or at the expense of Tenant. In the event that Tenant shall make any permitted alterations, additions or improvements to the Premises, Tenant agrees to insure the same against casualty loss as provided in this Paragraph. It is expressly understood and agreed that during the term of this Lease Landlord shall have no obligation to insure any alterations, additions or improvements to the Leased Premises installed by Tenant, or at Tenant's expense nor shall Landlord be required under any provisions for reconstruction of the Premises to reinstall any such alterations, improvements or additions.

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C. All such insurance shall be in a form satisfactory to Landlord and shall be carried with companies that have a general policy holder's rating of not less than "B+" ~~"A"~~ and a financial rating of not less than Class "X" in the most current edition of Best's Insurance Reports; shall provide that such policies shall not be subject to cancellation or change except after at least thirty (30) days' prior written notice to Landlord; and the policy or policies, or duly executed certificates for them, ~~together with satisfactory evidence of payment of the premium thereon~~ shall be deposited with Landlord prior to the time Tenant enters into possession of the Premises, and upon renewal of such policies, not less than thirty (30) days prior to the expiration of the term of such coverage. If Tenant fails to procure and maintain the insurance required hereunder, Landlord may, but shall not be required to, order such insurance and Tenant shall pay the cost and expense of same upon demand.

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D. Tenant agrees that it will not at any time during the term of this Lease keep anything or do anything in or about the Premises which will in any way tend to increase the insurance rates upon the Premises. Tenant agrees to pay to the Landlord forthwith upon demand the amount of any increase in premiums for insurance against loss by fire that may be charged during the term of this Lease on the amount of insurance to be carried by landlord on the Premises resulting from the foregoing or from Tenant doing any act in or about said premises which does so increase the insurance rates, whether or not the Landlord shall have consented to such act on the part of Tenant.

E. Tenant shall hold harmless, indemnify and defend Landlord from all liability, penalties, losses, damages, costs, expenses, cause of action, claims or judgments arising by reason of any injury to or death of any person or damage to property of any person inlcuding without limitation, Tenant and Tenant's agents, employees and invitees, from any cause or causes whatsoever (other than the negligence or willful misconduct of Landlord) occurring in, on or about the Premises during the term of this Lease or any extension thereof.

25. WAIVER OF SUBROGATION

Landlord and Tenant each hereby waive any and all rights of recovery against the other or against the officers, employees, agents and representatives of the other, on account of loss or damage occasioned to such waiving party for its property or the property of others under its control to the extent that such loss or damage is insured against under any insurance policies which either may have in force at the time of such loss or damage. Tenant shall, upon obtaining policies of insurance required hereunder, give notice to the insurance carrier that the foregoing mutual waiver of subrogation is contained in this Lease and Tenant shall cause each insurance policy obtained by it to provide that the insurance company waives all right of recovery by way of subrogation against either Landlord or Tenant in connection with any damage covered by such policy.

26. DAMAGE OR DESTRUCTION

A. If the Premises are damaged or destroyed, Landlord shall repair the Premises unless it has the option to terminate this Lease as provided herein and it elects to so terminate. Landlord shall have the option to terminate this Lease in the event any of the following occur:

1. The building(s) which is located on the Premises is destroyed or damaged by fire or other casualty insured against by Landlord's fire and casualty insurance then in force to the extent of thirty-three and one-third percent (33 1/3%) or more of the replacement cost thereof;

2. The building(s) which is located on the Premises is damaged or destroyed to any extent whatsoever as a result of any flood, earthquake, act of war, nuclear reaction, nuclear radiation or radioactive contamination or from any other casualty not covered by Landlord's fire and casualty insurance then in force.

immediately notify Tenant in writing and as soon as possible, but not later than

If any of the above events occurs, Landlord may terminate this Lease by giving Tenant written notice of its election to terminate within thirty (30) days after such damage or destruction, in which event this Lease shall terminate as of the date Tenant receives such notice. If any of the above events occurs and Landlord elects not to terminate the Lease, Landlord shall ~~within~~ ninety (90) days following the date of such damage or destruction commence repair of the Premises and thereafter prosecute the same diligently to completion, in which event this Lease will continue in full force and effect, provided, however, if the premises are not made substantially and reasonably enantable within 270 days from the date of the casualty, Tenant may, be written notice to Landlor ancel this lease.

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B. Landlord's obligation (should it elect or be obligated to repair or rebuild) nd same shall be limited to the basic building and the Tenant Improvements constructed by hall be Landlord, and Tenant shall at its own expense forthwith replace or fully repair all hereafter trade fixtures, equipment and other improvements installed by Tenant and existing at ull and the time of such damage or destruction. All insurance proceeds payable under Landlord's oid. Fire and Extended Coverage Insurance provided for in Paragraph 23 shall be payable solely to Landlord and Tenant shall have no interest therein, except to the extent proceeds are payable to Tenant for damages pursuant to that insurance policy.

condition for use as preceding the damage

C. In the event of any damage or destruction to the Premises which does not result in a termination of this Lease, the rent and other sums payable hereunder shall be temporarily abated proportionately with the degree in which Tenant's use of the Premises is impaired by such damage of destruction commencing from the date of such damage or destruction and continuing during the period required by Landlord to complete its repair and restoration of the Premises. Tenant shall not be entitled to any compensation or damages from Landlord for loss of the use of the Premises, damage to Tenant's personal property or any inconvenience occasioned by such damage, repair or restoration. Tenant hereby waives the provisions of Section 1932, Subdivision 2, and Section 1933, Subdivision 4, of the California Civil Code, and the provisions of any similar law hereinafter enacted. unless the loss of use, damage, or inconvenience was caused, in whole or in part, by Landlord's negligence or willful disregard in fulfilling its responsibilities hereunder.

27. CONDEMNATION

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A. If title to all of the Premises or so much thereof be taken for any public or quasi-public use under any statute or by right of eminent domain, or by private purchase in lieu thereof, so that a reasonable amount of reconstruction of the Premises will not result in the Premises being reasonably suitable for Tenant's continued occupancy for the uses and purposes permitted by this Lease, this Lease shall terminate as of the date that possession of the Premises or part thereof be taken.

B. If any part of the Premises shall be so taken and the remaining part thereof (after reconstruction of the then existing building in which the Premises are located) is reasonably suitable for Tenant's continued occupancy for the purposes and uses permitted by this Lease, this Lease shall, as to the part so taken, terminate as of the date that possession of such part of the Premises be so taken and the rental and other sums payable hereunder shall be reduced in the same proportion that the floor area of the portion of the Premises so taken (less any addition thereto by reason of any reconstruction) bears to the original floor area of the Premises, and Landlord shall, at its own cost and expense, make all necessary repairs or alterations to the building in which the Premises are located so as to make the portion of the building not taken a complete architectural unit and the remaining Premises a complete unit,

but such work shall not exceed the scope of the work done by Landlord in originally constructing said Premises. A proportionate part of the rental and other sums payable hereunder shall be temporarily abated during such restoration if there is a substantial interference with Tenant's business. Each party hereto waives the provisions of Section 1265.130 of the California Code of Civil Procedure allowing either party to petition the superior court to terminate this Lease in the event of a partial taking of the Premises.

C. No award for any partial or entire taking shall be apportioned, and Tenant hereby assigns to Landlord its interest in any award which may be made in such taking or condemnation, together with any and all rights of Tenant now or hereafter arising in or to the same or any part thereof, provided, however, that nothing contained herein shall be deemed to give Landlord any interest in or require Tenant to assign to Landlord any award made to Tenant for the taking of personal property belonging to Tenant, for the interruption of Tenant's business or its moving costs, or for the loss of goodwill. No temporary taking of the Premises shall terminate this Lease or give Tenant any right to any abatement of rent hereunder. Any award made to Tenant by reason of such temporary taking shall belong entirely to Tenant and Landlord shall not be entitled to share therein. Each party agrees to execute and deliver to the other all instruments that may be required to effectuate the provisions of this Paragraph.

28. ASSIGNMENT AND SUBLETTING

A. Tenant shall not have the power to transfer, sublet, assign, enter into license or concession agreements, change ownership, mortgage or hypothecate the Lease or the Tenant's interest in this Lease or in and to the Premises without the prior written consent of Landlord, which consent shall not be unreasonably withheld. Any attempted or purported transfer of this Lease, or the Tenant's interest in this lease or in and to the Premises without Landlord's prior written consent shall be void and confer no rights upon any third person and at Landlord's election shall constitute a default. **

B. Each assignment, sublease or other act set out in Subparagraph 28A above, or similar act, to which Landlord has consented shall be by an instrument in writing in form satisfactory to Landlord, and shall be executed by all parties to the transaction. Each assignee shall agree in writing, for the benefit of Landlord, to assume, to be bound by and to perform the terms, conditions and covenants of this Lease to be performed by Tenant. Notwithstanding anything contained herein, Tenant shall not be released from personal liability for the performance of each term, condition and covenant of this Lease unless Landlord specifically consents to such release in writing. One executed copy of such written instrument shall be delivered to Landlord.

C. Consent by Landlord to any such assignment or subletting shall not be deemed a consent to any subsequent assignment or subletting.

29. DEFAULT

A. Upon the "Event of Default" (as defined herein), Landlord shall have the following remedies, in addition to all other rights and remedies provided by law or otherwise provided in this Lease, to which Landlord may resort cumulatively or in the alternative:

1. Landlord can continue this Lease in full force and effect, and the Lease will continue in effect as long as Landlord does not terminate Tenant's right to possession, and Landlord shall have the right to collect rent when due. During the period Tenant is in default, Landlord can enter the Premises and relet them, or any part of them, to third parties for Tenant's account. Tenant shall be liable immediately to Landlord to all costs Landlord incurs in reletting the Premises, including, without limitation, broker's commissions, expenses of remodeling the Premises required by the reletting and like costs. Reletting can be for a period shorter or longer than the remaining term of this Lease. Tenant shall pay to Landlord the rent and other sums due under this Lease on the dates the rent is due, less the rent and other sums Landlord receives from any reletting. No act by Landlord allowed by this paragraph shall terminate this Lease unless Landlord notifies Tenant in writing that Landlord elects to terminate this Lease.

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**Notwithstanding the foregoing, Tenant may assign or sublet its interest hereunder to its parent corporation or a corporation having a common parent with Tenant, provided th Tenant shall (a) serve prior written notice of such assignment on Landord, and (b) rema liable hereunder, and such assignee of Tenant shall make comparable use of such premise for the purposes permitted hereunder.

2. Landlord can terminate Tenant's right to possession of the Premises at any time. No act by Landlord other than giving written notice to Tenant shall terminate this Lease. Acts of maintenance, efforts to relet the Premises or the appointment of a receiver on Landlord's initiative to protect Landlord's interest under this Lease shall not constitute a termination of Tenant's right to possession. On termination, Landlord has the right to remove all personal property of Tenant and store same at Tenant's cost and to recover from Tenant as damages:

a. The worth at the time of award of unpaid rent and other sums due and payable which had been earned at the time of termination; plus

b. The worth at the time of award of the amount by which the unpaid rent and other sums due and payable which would have been payable after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

c. The worth at the time of award of the amount by which the unpaid rent and other sums due and payable for the balance of the term after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; plus

d. Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform Tenant's obligations under this Lease, or which in the ordinary course of things would be likely to result therefrom, including but not limited to any costs or expenses incurred by Landlord (i) in retaking possession of the premises, including reasonable attorneys' fees therefor, (ii) maintaining or preserving the premises after such default, (iii) preparing the premises for reletting to a new tenant, including repairs or alterations to the premises for such reletting, (iv) leasing commissions or (v) any other costs necessary or appropriate to relet the premises; plus

e. At Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by the laws of the State of California.

The "worth at the time of award" of the amounts referred to in Subparagraphs 2a and 2b of this Paragraph is computed by allowing interest at the rate of ten percent (10%) per annum, or the maximum allowable rate, whichever is greater, on the unpaid rent and other sums due and payable from the termination date thru the date of award. The "worth at the time of award" of the amount referred to in Subparagraph 2c of this Paragraph is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

B. At the option of Landlord, a breach of this Lease shall exist if any of the following events (severally "Event of Default" and collectively "Events of Default") shall occur when:

1. Tenant shall have failed to pay Rent, Real Property Insurance, Outside Area Expenses, Real Estate Taxes, Real Property Insurance, or Personal Property Taxes, or any other charge imposed herein when due and such failure shall not have been cured within ~~five (5)~~ fifteen (15) days after the same shall have become due; provided, however, that Tenant may cure said default at any time prior to a termination of this Lease by Landlord or a re-entry by Landlord by paying all rents and other expenses or charges then due together with ten percent (10%) interest per annum, or the maximum allowable rate, whichever is greater, on the total amount then due, from the date said amount became due through the date of payment, inclusive.

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2. Tenant shall have failed to perform any term, covenant or condition of this Lease except those requiring the payment of money, and Tenant shall have failed to cure such breach within fifteen (15) days after written notice from Landlord where such breach could reasonably be cured within said fifteen (15) day period; provided, however, that where such failure could not reasonably be cured within said fifteen (15) day period, that Tenant shall not be in default unless it has failed to promptly commence and thereafter continue to make diligent and reasonable efforts to cure such failure as soon as practicable; or

3. Tenant shall have assigned its assets for the benefit of its creditors; or

4. The sequestration or attachment of or execution on any substantial part of the property of Tenant or on any property essential to the conduct of Tenant's business shall have occurred, and Tenant shall have failed to obtain a return or release of such property within thirty (30) days thereafter, or prior to sale pursuant to such sequestration, attachment or levy, whichever is earlier; or

5. Tenant shall have (i) failed to continuously and uninterruptedly conduct its business within the Premises or (ii) abandoned or vacated the Premises; or

6. A court shall have made or entered any decree or order:

a. other than under the bankruptcy laws of the United States; or

b. appointing a receiver, trustee or assignee of Tenant in bankruptcy or insolvency or for its property; or

c. directing the winding up or liquidation of Tenant and such decree or order shall have continued for a period of thirty (30) days.

C. The waiver by Landlord of any breach of any term, covenant or condition herein contained shall not be deemed to be a waiver of such term, covenant or condition or any subsequent beach of the same or any other term, covenant or condition herein contained. The subsequent acceptance of rent hereunder by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease, other than the failure of Tenant to pay the particular rental or other sum so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such payment. No covenant, term or condition of this Lease shall be deemed to have been waived by Landlord unless such waiver be in writing signed by Landlord.

30. SUBORDINATION

This Lease is subject and subordinate to all ground or underlying leases, mortgages and deeds of trust which now affect the Premises and to all renewals, modifications, consolidations, replacements and extensions thereof; provided, however, if the Lessor under any such lease or the Holder or Holders of any such mortgage or deed of trust shall advise Landlord that they desire or require this Lease to be prior and superior thereto, upon written request of Landlord to Tenant, Tenant agrees to promptly execute, acknowledge and deliver any and all documents or instruments which Landlord or such Lessor, Holder or Holders deem necessary or desirable for purposes thereof. Landlord shall have the right to cause this Lease to be and become and remain subject and subordinate to any and all ground or underlying leases, mortgages or deeds of trust which may hereafter be executed covering the Premises or any renewals, modifications, consolidations, replacements or extensions thereof, for the full amount of all advances made or to be made thereunder and without regard to the time or character of such advances, together with interest thereon and subject to all the terms and provisions

thereof; and Tenant agrees, within ten (10) days after the Landlord's written request to execute, acknowledge and deliver upon request any and all documents or instruments requested by Landlord to assure the subordination of this Lease; provided, however, that the foregoing provisions with respect to such election of subordination by Landlord shall not be effective unless the owner or holder of any such mortgage, deed of trust or the Lessor under any such leasehold estate shall execute with Tenant a non-disturbance and attornment agreement under which such owner, holder or Lessor shall agree to accept the attornment of Tenant upon the terms and conditions contained in this Lease for the then unexpired term hereof in the event of termination of such leasehold estate or upon the foreclosure of any such mortgage or deed of trust, if Tenant is not then in default. Notwithstanding anything to the contrary set forth in this paragraph, Tenant hereby attorns and agrees to attorn to any person, firm or corporation purchasing or otherwise acquiring the Premises at any sale or other proceeding or pursuant to the exercise of any other rights, powers or remedies under such mortgage or deeds of trust or ground or underlying leases as if such person, firm or corporation had been named as Landlord herein, it being intended hereby that if this Lease is terminated, cut off or otherwise defeated by reason of any act or actions by the owner or holder of any such mortgage or deed of trust or the Landlord under any such leasehold estate, then, at the option of any such person, firm or corporation so purchasing or otherwise acquiring the Premises, this Lease shall continue in full force and effect.

31. NOTICES

Any notice or demand required or desired to be given under this Lease shall be in writing and shall be personally served or in lieu of personal service may be given by mail in which later event such notice shall be deemed to have been given when seventy-two (72) hours have elapsed from the time when such notice was deposited in the United States mail, certified and postage prepaid, addressed to the party to be served. At the date of execution of this Lease, the addresses of Landlord and Tenant are as first above set forth; provided that from and after the date the term of this Lease commences the address of Tenant shall be the address of the Premises. Either party may change its address by giving notice of same in accordance with this paragraph.

32. ATTORNEYS' FEES

In the event either party shall bring any action or legal proceeding for damages for an alleged breach of any provision of this Lease, to recover rent, or other sums due, to terminate the tenancy of the Premises or to enforce, protect or establish any term, condition or covenant of this Lease or right of either party, the prevailing party shall be entitled to recover as a part of such action or proceedings, or in a separate action brought for that purpose, reasonable attorneys' fees and court costs as may be fixed by the court or jury.

33. ESTOPPEL CERTIFICATES

Tenant shall within thirty (30) days following request by Landlord:

1. Execute and deliver to Landlord any documents, including estoppel certificates as prepared by Landlord (i) certifying that this Lease is unmodified and in full force and effect or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect and the date to which the rent and other charges are paid in advance, if any, and (ii) acknowledging that there are not, to Tenant's knowledge, any uncured defaults on the part of Landlord hereunder, or if there are uncured defaults on the part of the Landlord, stating the nature of such uncured defaults, and (iii) evidencing the status of the Lease as may be required either by a lender making a loan to Landlord to be secured by deed of trust or mortgage covering the Premises or a purchaser of the Premises from Landlord, and

2. To deliver to Landlord the most recent SEC Form 10-K for Warner Communications, Inc. ~~the current financial statements of Tenant with an opinion of a certified public accountant, if available, including a balance sheet and profit and loss statement for the most recent prior year all prepared in accordance with generally accepted accounting principles consistently applied.~~ Tenant's failure to deliver an estoppel certificate within thirty (30) days after delivery of Landlord's request therefor shall be conclusive upon Tenant (i) that this Lease is in full force and effect, without modification except as may be represented by Landlord, (ii) that there are now no uncured defaults in Landlord's performance and (iii) that no rent has been paid in advance.

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with a copy also being sent to Robert J. Salomon, Warner Communications, Inc., 75 Rockefeller Plaza, New York, N.Y. or such other address as Tenant may from time to time give notice to Landlord.

34. TRANSFER OF THE PROPERTY BY LANDLORD

In the event of any conveyance of the Premises and assignment by Landlord of this Lease, Landlord shall be and is hereby entirely freed and relieved of all liability under any and all of its covenants and obligations contained in or derived from this Lease occurring after the consummation of such conveyance assignment so long as Landlord's successor agrees and covenants to assume all of Landlord's obligations under this Lease occurring after the consummation of such conveyance assignment.

35. GENERAL

A. The captions used in this Lease are for the purpose of convenience only and shall not be construed to limit or extend the meaning of any part of this Lease.

B. Any executed copy of this Lease Agreeement shall be deemed an original for all purposes.

C. Time is of the essence for the performance of each term, condition and covenant of this Agreement.

D. In case any one or more of the provisions contained herein, except for the payment of rent, shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Lease, but this Lease shall be construed as if such invalid, illegal or unenforceable provision had not been contained herein. This lease shall be construed and enforced in accordance with the laws of the State of California.

E. The language in all parts of this Lease shall in all cases be construed as a whole according to its fair meaning and not strictly for or against either Landlord or Tenant. When the context of this Lease requires the neuter gender includes the masculine, the feminine, a partnership or corporation or joint venture, and the singlular includes the plural.

F. The covenants and agreements contained in this Lease shall be binding on the parties hereto and on their respective successors and assigns (to the extent this Lease is assignable).

G. The waiver of Landlord of any breach of any term, condition or covenant, of this Lease shall not be deemed to be a waiver of such provision or any subsequent breach of the same or any other term, condition or covenant of this Lease.

36. LANDLORD'S RIGHT TO PERFORM TENANT'S COVENANTS

If Tenant shall at any time fail to make any payment or perform any other act on its part to be made or performed under this Lease, Landlord may, but shall not be obligated to and without waiving or releasing Tenant from any obligation of Tenant under this Lease, make such payment or perform such other act to the extent Landlord may deem desirable, and in connection therewith, pay expenses and employ counsel. All sums so paid by Landlord and all penalties, interest and costs in connection therewith shall be due and payable by Tenant on the next day after any such payment by Landlord, together with interest thereon at the rate of ten percent (10%) per annum, or the maximum allowable rate, whichever is greater, from such date to the date of payment thereof by Tenant to Landlord plus collection costs and attorneys' fees. Landlord shall have the same rights and remedies for the non-payment thereof as in the case of default in the payment of rent.

37. OTHER TERMS AND CONDITIONS

The "Addendum One" attached hereto containing Paragraphs 40 through 47 is a part of this Lease and incorporated herein by reference.

38. ENTIRE AGREEMENT

This Lease and the Exhibits and Addendums, if any, attached hereto is the entire Agreement between the Parties, and there are no agreements or representations between the Parties except as expressed herein. Except as otherwise provided herein, no

subsequent change or addition to this Lease shall be binding unless in writing and signed by the Parties hereto.

THIS LEASE is effective as of the date the last signatory necessary to execute the Lease shall have executed this Lease.

Dated: _____

TENANT: ATARI, INC., a wholly owned subsidiary of Warner Communications, Inc.

By: _____

Its: _____

By: _____

Its: _____

Dated: August 4, 1980

LANDLORD: HUMBOLDT COURT ASSOCIATES SEVEN, a California General Partnership

By: _____

Its: Managing Partner

ADDENDUM TO THAT CERTAIN LEASE AGREEMENT, DATED July , 1980, BY AND BETWEEN HUMBOLDT COURT ASSOCIATES SEVEN, LANDLORD, AND ATARI, INC., TENANT, FOR THE PREMISES LOCATED AT 1196 BORREGAS AVENUE, SUNNYVALE, CALIFORNIA.

40. PLANS AND SPECIFICATIONS

Landlord has retained V. C. Wong & Associates, Inc., as architect, for completion of the working architectural and engineering plans and specifications for the Tenant Improvements to be constructed on the Premises in accordance with Paragraph 41 hereof. Landlord and Tenant shall diligently assist said architect in the completion of the Plans and Specifications. Landlord and Tenant agree that said plans shall be executed by the parties hereto and attached to this Lease as Exhibit "B". Said Plans and Specifications shall be known as the "Approved Plans".

It is understood that Tenant Improvements shall be designed and constructed as the Tenant shall see fit as his direction, and shall meet the needs of the Tenant. V. C. Wong & Associates, Inc., shall cooperate fully with the Tenant in this endeavor.

41. CONSTRUCTION OF TENANT IMPROVEMENTS

As a condition precedent to the commencement of this Lease and Tenant's obligations hereunder, Landlord shall complete, at Landlord's sole cost and expense, in a good and workmanlike manner, construction of the Tenant Improvements to a maximum of $596,000.00, including those Tenant Improvements installed by Landlord concurrently with project shell construction in the amount of $196,633.00.

The Tenant Improvement costs shall include, but not be limited to:

a) All costs of preliminary and final architectural and engineering plans and specifications for the Tenant Improvements, and engineering costs associated with completion of State of California energy utilization calculations under Title 24 legislation;

b) All costs of obtaining building permits and other necessary authorizations from the City of Sunnyvale and the State of California;

c) All costs of interior design and finish schedule Plans and Specifications including as-built drawings;

d) All direct and indirect costs of procuring and installing Tenant Improvements in the Premises, including the cost of all on-site supervisory and administrative staff, office, equipment and temporary services rendered Landlord's contractor in connection with construction of the Tenant Improvements;

e) All fees payable to Landlord's architectural and engineering firm if it is required by Tenant to redesign any portion of the Tenant Improvements following Tenant's approval of the Approved Plans.

In no event shall the Tenant Improvements include any costs of procuring or installing in the Premises any trade fixtures, equipment, furniture, furnishings, telephone equipment or other personal property to be utilized in the Premises by Tenant. In the event the final cost of the Tenant Improvements are more or less than $596,000.00, then the monthly Base Rental provided for in Paragraph 5 hereof shall be increased or decreased, as the case may be, by a factor of $15.50 per month for each $1,000 of Tenant Improvement costs, but in no event shall Landlord pay more than $642,000.00 toward said costs. Any such excess costs shall be paid by Tenant.

Tenant shall receive the benefit of all warranties provided to Landlord by Landlord's contractor, subcontractors, and materialmen.

42. REVISIONS TO PLANS AND SPECIFICATIONS

* (not to exceed prime rate plus two (2) points)

No substantial revisions to the "Approved Plans" shall be made by either party unless approved in writing by Landlord and Tenant. Landlord agrees to make all changes; (i) required by any public agency, to conform with governmental regulations, (ii) requested in writing by Tenant and approved in writing by Landlord which approval shall not be unreasonably withheld. Tenant shall pay Landlord an amount equal to all of Landlord's costs related to said changes if in excess of $642,000.00. Such amount shall be billed to Tenant by Landlord with appropriate documentation in the form of a construction requisition on AIA form from the contractor for construction work in place, and shall be paid by Tenant within ten (10) days of receipt of invoice. Landlord's cost related to the change shall include without limitation the following; (i) all architectural, engineering and/or related design fees, filing and recording costs, (iii) all interest* and any other related loan costs associated with Funds borrowed to pay costs related to the change; (iv) Landlord's General Contractor's price for affecting the change. In no event shall Tenant be liable to Landlord for any amount exceeding Landlord's actual out-of-pocket expenditures.

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43. COMPLETION OF PUNCHLIST ITEMS

Upon Landlord's delivery to Tenant of the Final Building Permit and recorded Notice of Completion, Landlord and Tenant shall hold a "walk through" of the Premises with Landlord's General Contractor and Architect. Landlord and Tenant shall mutually identify those items contained in the Approved Plans and Specifications not completed by Landlord's General Contractor and a "punchlist" of said items shall be developed. Landlord's General Contractor shall have ten (10) days from receipt of same to complete said improvements. Prior to acceptance of Premises by Tenant, the Architect must certify that the building and all Tenant Improvements and punchlist items have been completed in accordance with the Approved Plans and Specifications.

44. LEASE COMMENCEMENT

Tenant's obligations hereunder shall commence upon Landlord's recordation of the Notice of Completion and Landlord's deliverance of a Final Building Permit from the City of Sunnyvale to Tenant, and acceptance by the Tenant, which acceptance shall not be unreasonably withheld.

45. RENEWAL OPTION

At the expiration of the original ten (10) year Lease term hereof, provided Tenant is not in default of any of the terms and conditions of this Lease, Tenant shall have an option to extend this Lease for one renewal term of five (5) years. Such renewal shall be upon all of the terms and conditions herein, except that the monthly rental shall be the then existing rental, adjusted to reflect the percentage increase, if any, in the Cost of Living during the previous five (5) year period (or the closest comparable period then available and mutually acceptable) as measured by the Consumer Price Index, (All Urban Consumers, All Items) for the San Francisco-Oakland Metropolitan Area, published by the U.S. Department of Labor, Bureau of Labor Statistics which most closely approximates the index specified, shall be substituted in place thereof. The option shall be exercised by Tenant giving Landlord written notice of Tenant's intention to do so at least one hundred eighty (180) days prior to the expiration of the initial lease term.

In no event shall the rental paid during the renewal period be less than that paid during the initial term nor increased by more than forty percent (40%).

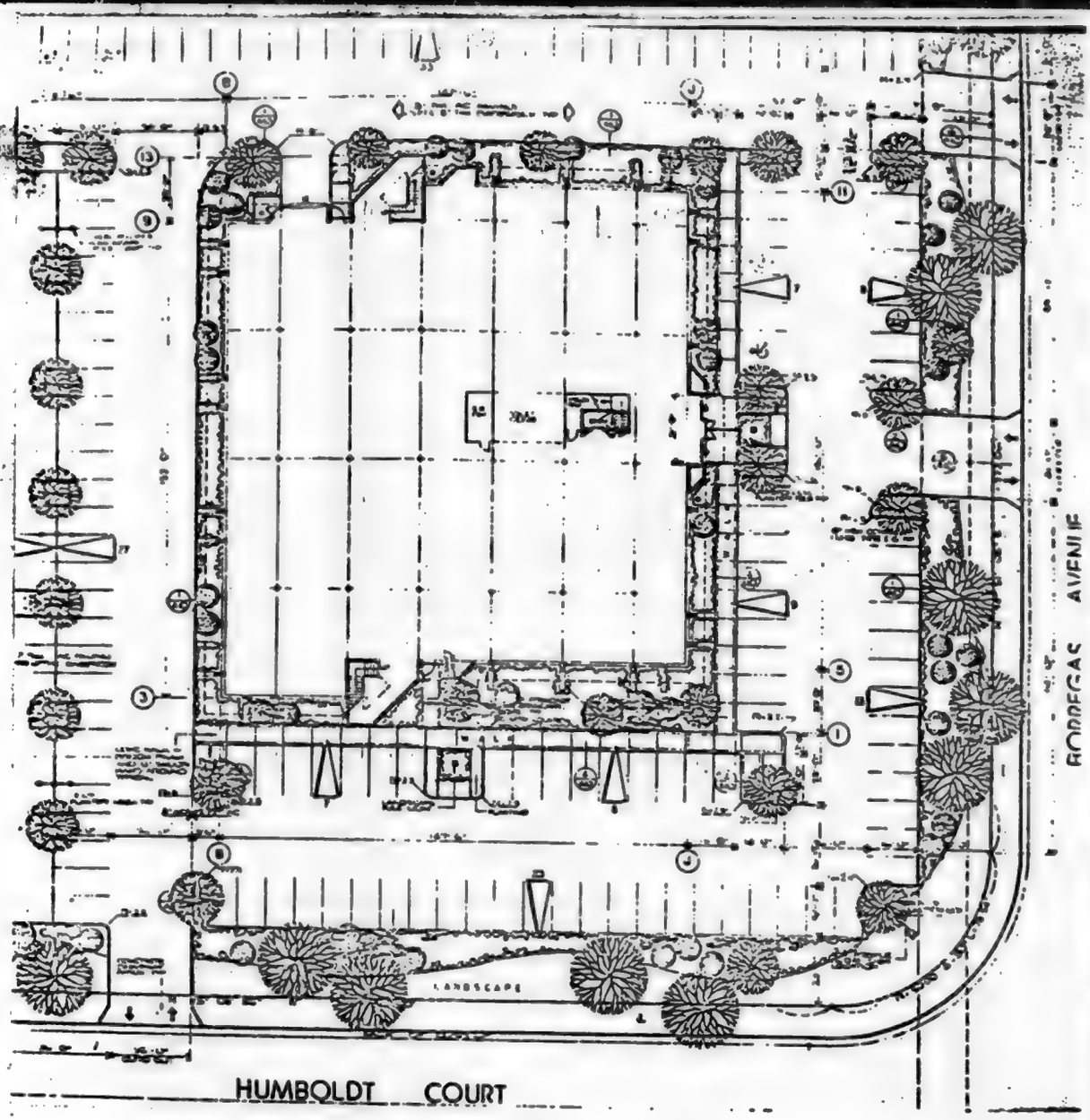
46. RENTAL ADJUSTMENT

At the commencement of the sixth (6th) year of the Lease term herein, the then existing rental shall be adjusted to reflect the percentage increase, if any, in the cost of living during the previous five (5) year period (or the closest comparable period then available and mutually acceptable) as measured by the Consumer Price Index (All Urban Consumers, All Items) for the San Francisco-Oakland Metropolitan Area, published by the U.S. Department of Labor, Bureau of Labor Statistics. In the event the index specified above is either unavailable or is no longer published, the most comprehensive official index then published by the U.S. Department of Labor, Bureau of Labor Statistics, or such similar index, which most closely approximates the index specified, shall be substituted.

In no event shall the rental paid during the adjustment period be less than that paid during the previous five (5) year period nor increased by more than thirty (30%) percent.

47. TENANT'S RIGHT TO PURCHASE PREMISES

In the event that during the term of this Lease Landlord elects to sell the Premises, the Tenant shall have the option, solely within its discretion, to purchase the Premises on the same terms and conditions as Landlord offers the Premises for sale to third parties. Tenant's option to purchase the Premises shall expire thirty (30) days after receipt of notice from the Landlord that Landlord intends to sell the premises. Landlord shall provide Tenant with notice as specified in paragraph 31 of this Lease. Landlord's notice shall set forth the purchase price, terms, and conditions of the prospective offer to sell to third parties. In the event that Tenant elects to purchase the Premises, Tenant shall notify Landlord prior to the expiration of said thirty day period by registered mail at the address set forth in paragraph 1 of this Lease.



PREMISES

A 45,709 sq.ft. two story research and development and light manufacturing building situated on 2.664 acres, commonly known as 1196 Borregas Ave., Sunnyvale, California 94086.

EXHIBIT "A"

INITIAL

TENANT IMPROVEMENTS

Working drawings for the Tenant Improvements for the Premises to be mutually agreed upon and executed by both Landlord and Tenant and shall be attached hereto and made a part hereof.

Tenant Improvements for the Premises at 1196 Borregas Ave. Sunnyvale, California 94086.

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EXHIBIT "B"

DECLARATION OF PROTECTIVE COVENANTS
MOFFETT INDUSTRIAL PARK NO. 1

THIS DECLARATION, made this 4th day of January, 1968, by **MOFFETT PARK ASSOCIATES**, a partnership, the members of which are Atkinson Development Company, a California corporation, Ostrander Construction Company, an Oregon corporation, and R.A. Tripper, Inc., a Nevada corporation,

WITNESSETH:

WHEREAS Moffett Park Associates is the owner of that certain real property located in the City of Sunnyvale, County of Santa Clara, State of California, described as follows (hereinafter called "Moffett Industrial Park No. 1"):

Parcels 2, 3 and 4 as shown upon that certain map entitled "Parcel Map for Guy F. Atkinson Company being a portion of Rancho Pastoria De Las Borregas, Crowman Sub. No. 2, T.J. Murphy Sub No. 3," which map was filed for record in the Office of the Recorder of the County of Santa Clara, State of California, on September 13, 1968, in Book 214 of Maps, at pages 20 through 23.

and

WHEREAS Moffett Park Associates proposes to subdivide Moffett Industrial Park No. 1 and to subject it to the following restrictions:

NOW, THEREFORE, Moffett Park Associates hereby declares that Moffett Industrial Park No. 1 is and shall be held, conveyed, encumbered, leased and used subject to the following uniform restrictions, covenants and equitable servitudes in furtherance of a plan for the subdivision, improvement and sale thereof and to enhance the value, desirability and attractiveness of Moffett Industrial Park No. 1, the restrictions set forth herein shall run with the real property included within Moffett Industrial Park No. 1 and shall be binding upon all persons having or acquiring any interest in such real property or any part thereof, shall inure to the benefit of every portion of Moffett Industrial Park No. 1 and any interest therein and shall inure to the benefit of and be binding upon each successor in interest of Moffett Park Associates and may be enforced by Moffett Park Associates or its successors in interest or by any Owner (as defined in Article I below) or his successors in interest.

I. GENERAL PROVISIONS.

A. Definitions.

1. "Architectural Control Committee" means MPA, or any committee which MPA may appoint by an appropriate instrument recorded with the Santa Clara County Recorder.
2. "MPA" means (a) Moffett Park Associates or (b) Moffett Industrial Park No. 1 Owners Association upon the transfer of the rights and duties of Moffett Park Associates to such Association in accordance with Article VIII.
3. "Lot" means each lot shown on the parcel or subdivision map, or maps for Moffett Industrial Park No. 1.
4. "Site" means a parcel consisting either of a Lot, a portion of a Lot, contiguous Lots, or portions of contiguous Lots.
5. "Improvements" means all improvements to a Site including, but without limitation, buildings, loading areas, trackage, parking areas, pavement, poles, fences, landscaping, signs and structures of any type.
6. "Building" means the main portion of any building or similar structure and all projections or extensions thereof, including garages, outside platforms and docks.
7. "Owner" means the person or persons, partnership or corporation in whom title to a Site is vested, as shown by the official records of the Office of the County Recorder of Santa Clara County. "Owner" does not mean mortgagees, trustees and beneficiaries of deeds of trust or holders of any indebtedness secured by a mortgage or deed of trust.

B. Purposes of Restrictions.
The purpose of these covenants, conditions and restrictions is to insure proper development and use of Moffett Industrial Park No. 1, to protect the Owner of each Site against such improper development and use of other Sites as will depreciate the value of his Site, to prevent the erection of structures of unsuitable or inharmonious design or construction, to secure and maintain sufficient setbacks from streets and between structures, to maintain Common Landscaping (as defined in Article V) and in general to provide for a high quality of improvement of Moffett Industrial Park No. 1 in accordance with a general plan.

II. REGULATION OF IMPROVEMENTS.

A. Minimum Setback Lines.
No Improvement shall be constructed upon any Site within fifty (50) feet of the right-of-way line of any public street. No Improvement other than landscaping, paving and fences shall be constructed upon any Site within twenty (20) feet of any other Site. The Architectural Control Committee may approve lesser setback lines if in its opinion a variation would be compatible with the general development of Moffett Industrial Park No. 1.

B. Ground Coverage.
No more than forty-five per cent (45%) of the surface of any Site shall be covered with a Building or Buildings.

C. Construction Operations.
Construction of all Improvements shall be expedited so that none shall remain in a partially finished condition any longer than reasonably necessary for the completion thereof.

D. Excavation.
No excavation shall be made on, and no sand, gravel or soil shall be removed from, any Site, except in connection with the construction of Improvements, and upon completion thereof, exposed openings shall be backfilled, and disturbed ground shall be graded, leveled and paved or landscaped.

E. Landscaping.
Within ninety (90) days of the occupancy or completion of any Building on a Site, whichever occurs first, such Site shall be landscaped in accordance with plans approved by the Architectural Control Committee. The Owner of the Site shall maintain such landscaping in good order and condition.

F. Signs.
No billboard or advertising signs shall be permitted on any Site other than those approved by the Architectural Control Committee which identify the name, business and products of the person or firm occupying the Site or offer the Site for sale or lease.

G. Parking Areas.
Each Site shall have facilities for parking sufficient to serve the business conducted thereon without using adjacent streets therefor, and no use shall be made of any Site which would require parking in excess of the parking spaces on the Site. In any event, the number and size of the parking spaces on each Site shall conform with all ordinances of the City of Sunnyvale applicable with respect thereto. Parking areas shall be laid out and constructed according to plans approved by the Architectural Control Committee and shall be maintained thereafter in good condition. Except with the approval of the Architectural Control Committee no parking shall be permitted within fifty (50) feet of the right-of-way line of any street or between any Building and any street.

H. Loading Areas.
All vehicle loading and unloading in connection with an Owner's business shall be conducted upon his Site, and sufficient space shall be provided therefor. Loading Areas shall be screened from view from streets and adjoining properties by a visual barrier not less than six (6) feet in height. Except with the prior written approval of the Architectural Control Committee, loading areas shall not be located between any Building and any street or any closer than seventy-five (75) feet to the right-of-way line of any street.

I. Storage Areas.
No materials, supplies, equipment or trash containers shall be stored on a Site except inside a Building or behind a visual barrier not less than six (6) feet in height or rising two (2) feet above the stored materials, supplies or equipment, whichever is higher, screening such storage areas from view from streets and adjoining Sites. Except with the prior written approval of the Architectural Control Committee, storage areas shall not be located between any Building and any street.

J. Building Regulations.
All Buildings shall be constructed and maintained in accordance with the following standards unless an exception is approved in writing by the Architectural Control Committee:

1. Exterior walls shall be of masonry, concrete or approved equal material.
2. Exterior walls shall be painted or otherwise finished in a manner acceptable to the Architectural Control Committee. Exterior walls shall not be repainted or refinished unless and until the Architectural Control Committee shall have approved the color or colors of the finishing materials to be used.
3. All Buildings shall be maintained in good order and repair and condition. All exterior painted surfaces shall be maintained in first-class condition and shall be repainted at least once every five (5) years.
4. All electrical, telephone and other utility lines shall be underground and shall not be exposed on the exterior of any Building.
5. All electrical and mechanical apparatus, equipment, fixtures (other than lighting fixtures) conduit, ducts, vents, flues and pipes located on the exterior of any Building shall be concealed from view and shall be architecturally treated in a manner acceptable to the Architectural Control Committee.

III. APPROVAL OF PLANS.

No Improvement shall be erected, placed, altered, maintained or permitted to remain on any Site until plans and specifications showing plot layout and all exterior elevations, with materials and colors therefor and structural design, signs and landscaping shall have been submitted to and approved in writing by the Architectural Control Committee. Such plans and specifications shall be submitted in writing over the signature of the Owner of the Site or his authorized agent. Approval shall be based, among other things, on adequacy of Site dimensions, adequacy of structural design, effect of location and use of improvements on neighboring Sites, improvements, operations, and uses, relation of topography, grade, and finished ground elevation of the Site being improved to that of neighboring Sites, proper facing of main elevation with respect to nearby streets, and conformity of the plans and specifications to the purpose and general plan and intent of this Declaration. The Architectural Control Committee shall not arbitrarily or unreasonably withhold its approval of such plans and specifications. If the Architectural Control Committee fails either to approve or disapprove such plans and specifications within thirty (30) days after the time have been submitted to it, it shall be conclusively presumed that the Architectural Control Committee has approved said plans and specifications, subject, however, to the restrictions contained in Articles II and IV hereof.

Neither the Architectural Control Committee nor its successors or assigns shall be liable in damages to anyone submitting plans to them for approval, or to any Owner by reason of mistake in judgment, negligence, or nonfeasance arising out of or in connection with the approval or disapproval or failure to approve any such plans. Every person who submits plans to the Architectural Control Committee for approval agrees, by submission of such plans, and every Owner agrees, by acquiring title to a Site, that he will not bring any action or suit against the Architectural Control Committee to recover any such damages.

Notwithstanding anything to the contrary contained herein, after the expiration of one (1) year from the date of issuance of a building permit by municipal or other governmental authority for any Improvement, said Improvement shall, in favor of purchasers and encumbrancers in good faith and for value, be deemed to be in compliance with all provisions of this Article III, unless actual notice of such non-compliance or noncompletion, executed by the Architectural Control Committee, shall appear of record in the Office of the Recorder of Santa Clara County, California, or unless legal proceedings shall have been instituted to enforce compliance or completion.

Initial

IV. REGULATION OF OPERATIONS AND USES.

A. Permitted Operations and Uses.

1. Except as provided in paragraphs B and C below, any industrial use will be permitted on a Site including, but without limitation, manufacturing, processing, storage, wholesale, office, laboratory, professional and research and development. Such retail uses as may be required for the convenience of Owners and their employees shall be permitted on Parcels 3 and 4 of Moffett Industrial Park No. 1 and such retail uses may include, but without limitation, restaurants, drug stores, barber and beauty shops, shoe repair shops, cleaners, motels, post offices, banks, and automobile service stations. In no event shall any retail use be permitted on Parcel 2 of Moffett Industrial Park No. 1. Such municipal, governmental and public utility uses as may be necessary or appropriate shall be permitted.

B. Prohibited Operations and Uses.

No Site shall be used as a junk yard, stock yard, or slaughter yard or for commercial excavation of building or construction materials, fat rendering or distillation of bones, dumping, disposal, incineration or reduction of garbage, sewage, offal, dead animals or refuse, or the smelting of iron, tin, zinc or other ores or the prospecting or drilling for natural gas, oil or like substances, except with the prior written permission of the Architectural Control Committee, and then only in such manner as will not materially inconvenience other Owners or materially depreciate the value of adjacent property.

C. Nuisance.

No noxious or offensive activity shall be carried on nor shall anything be done on any Site which may be or become an annoyance or nuisance to the Owners or occupants of other Sites or which will be offensive by reason of odor, fumes, dust, dirt, fly-ash, smoke, noise, glare or which will be hazardous by reason of danger of fire or explosion.

V. COMMON LANDSCAPING.

The Owner of each Site shall maintain landscaping existing thereon at the time of purchase ("Common Landscaping") in a condition that meets the approval of the Architectural Control Committee. In the event that the Owner of any Site does not maintain Common Landscaping in such condition or the landscaping described in Article II E as therein provided, MPA or its agents shall have the right to maintain such landscaping in such condition. MPA or its agents shall have the right at any reasonable time to enter into any Site for the purpose of such maintenance and for such other purposes as are reasonably related thereto. MPA shall use due diligence and reasonable care in repairing, maintaining and installing Common Landscaping to see that such repair, maintenance and installation does not interfere with the Owner's use of its Site. In the event that MPA or its agents should undertake any such maintenance on any such Site, the Owner thereof shall reimburse MPA for all of MPA's costs incurred in such maintenance. In any legal proceeding brought by MPA to recover such costs, the Owner shall be obligated to pay for the costs and expenses of such proceeding, including reasonable attorneys' fees.

VI. ENFORCEMENT.

A. Interpretation.

In case of uncertainty as to the meaning of any article, section, subsection, paragraph, sentence, clause, phrase or word of this Declaration the interpretation of MPA shall be final, conclusive and binding upon all interested parties.

B. Abatement and Suit.

Violation or breach of any restriction herein contained shall give to MPA and every Owner the right to enter the property upon or as to which said violation or breach exists and to summarily abate and remove at the expense of the Owner thereof, any structure, thing or condition that may be or exist thereon contrary to the intent and meaning of the provisions hereof, or to prosecute a proceeding at law or in equity against the person or persons who have violated or are attempting to violate any of these restrictions to enjoin or prevent them from doing so, to cause said violation to be remedied or to recover damages for said violation.

In any legal or equitable proceeding for the enforcement of this Declaration, the losing party or parties shall pay the attorneys' fees of the prevailing party or parties, in such amount as may be fixed by the court in such proceedings. All remedies provided herein or at law or in equity shall be cumulative and not exclusive.

C. Inspection.

MPA may from time to time at any reasonable hour or hours, enter and inspect any property subject to these restrictions to ascertain compliance therewith.

D. Failure to Enforce Not a Waiver of Rights.

Except as provided in the last paragraph of Article III hereof, the failure of MPA or any Owner to enforce any restriction contained herein shall in no event be deemed to be a waiver of the right to do so thereafter nor of the right to enforce any other restriction contained herein.

VII. EXTINGUISHMENT, CONTINUATION AND MODIFICATION.

This Declaration, each provision hereof and every covenant, condition and restriction contained herein shall continue in full force and effect for a period of forty (40) years from the date hereof, provided, however, that this Declaration, or any provision hereof, or any covenant, condition or restriction contained herein, may be terminated, extended, modified, or amended with the written consent of the Owners of sixty-five per cent (65%) of the land in Moffett Industrial Park No. 1 (exclusive of portions thereof now or hereafter dedicated to public use); provided, further, that so long as Moffett Park Associates owns at least twenty per cent (20%) of Moffett Industrial Park No. 1, no such termination, extension, modification or amendment shall be effective without the written consent of Moffett Park Associates. No such termination, extension, modification or amendment shall be effective until a proper instrument in writing has been executed and acknowledged and recorded in the Office of the Recorder of Santa Clara County, California.

VIII. MOFFETT INDUSTRIAL PARK NO. 1 OWNERS ASSOCIATION.

A. Membership.

Each Owner shall be a member of the Moffett Industrial Park No. 1 Owners Association, an unincorporated association (hereinafter called the "Association").

B. Transfer of Rights and Duties.

The rights and duties of MPA under this Declaration shall be transferred to and automatically assumed by the Association upon the earlier of the following to occur:

1. The sale of ninety per cent (90%) of Moffett Industrial Park No. 1 by Moffett Park Associates to Owners as evidenced by the office of records of the Santa Clara County Recorder; or
2. The recordation by MPA of an appropriate instrument with the Santa Clara County Recorder transferring the rights and duties of MPA under this Declaration to the Association.

C. Organization.

The members of the Association may at any time meet and adopt by laws or rules of procedure to govern the operation of the Association. Until such by-laws or rules of procedure are adopted, meetings of the Association may be called by any member thereof upon seven (7) days' written notice to each member setting forth the time and place thereof, provided that notice may be waived in writing at any time by any member or members not so notified; twenty-five per cent (25%) of the members of the Association shall constitute a quorum; and the Association may act by a vote of a majority of its members present at a meeting, duly called, at which a quorum is present or without a meeting by unanimous written consent of its members.

IX. ASSIGNABILITY OF MOFFETT PARK ASSOCIATES RIGHTS AND DUTIES.

Any and all of the rights, powers and reservations of Moffett Park Associates herein contained may be assigned to any person, corporation or entity which assumes in writing the duties of Moffett Park Associates pertaining to the particular rights, powers and reservations assigned, and thereafter to the extent of such assignment, such person, corporation or entity shall have the same rights and powers and be subject to the same obligations and duties as are herein given to and assumed by Moffett Park Associates.

X. CONSTRUCTIVE NOTICE AND ACCEPTANCE.

Every Owner is and shall be conclusively deemed to have consented and agreed to every covenant, condition and restriction contained herein, whether or not any reference to this Declaration is contained in the instrument by which such Owner acquired an interest in any portion of Moffett Industrial Park No. 1.

IN WITNESS WHEREOF, Moffett Park Associates, the declarant herein, has caused its name to be hereunto subscribed as of the day and year first above written.

MOFFETT PARK ASSOCIATES,

By Atkinson Development Company,

By _____
Vice President

By _____
Assistant Secretary

By Ostrander Construction Company,

By _____

By _____

By R. A. Tripper, Inc.,

By _____

By _____

Recording Requested By
and When Recorded Return To:

Howell & Hallgrimson
28 North First Street
1000 Commercial Building
San Jose, California 95113
Attn: Linda M. Lyons. Esq.

ASSIGNMENT OF TENANT'S INTEREST IN LEASE

FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby expressly acknowledged, Atari Games, Inc., a California corporation, formerly known as ATARI, INC. ("Assignor"), assigns, transfers and conveys to Atari Corporation, a Nevada corporation, formerly known as TRAMIEL TECHNOLOGIES ("Assignee"), which assignment is effective as of July 2, 1984 (the "Assignment Date"), all of Assignor's and the "Tenant's" right, title, interest, obligations and any and all claims in and to that certain Lease dated August 4, 1980 between Humboldt Court Associates Seven, a California general partnership, as Landlord, and Assignor, as Tenant, as amended by a letter dated August 13, 1980 and an Amendment One to Lease Agreement dated November 10, 1980 (the "Lease"), affecting that certain real property commonly known as Humboldt Seven, 1196 Borregas Avenue, Sunnyvale, California, as more fully described in Appendix I attached hereto.

Assignee hereby assumes and agrees to keep, perform and fulfill all of Assignor's obligations as Tenant under the Lease arising after the Assignment Date.

Assignor covenants and warrants that it has performed all of the obligations to be performed by Assignor pursuant to and in accordance with, or with respect to, the Lease as of the Assignment Date.

The undersigned acknowledges that the Right of First Refusal contained in Paragraph 47 of the Lease has been waived with respect to the sale of the above-referenced real property to Yercaf N.V., a Netherlands Antilles corporation.

IN WITNESS WHEREOF, Assignor and Assignee have executed this Agreement of Lease as of , 1985.

Atari Games, Inc., a California corporation	Atari Corporation, a corporation
BY:	BY:
ITS: Vice President	ITS:

CONSENT OF LESSOR

The undersigned is the Lessor in the Lease described above and hereby consents to the Assignment of the Lease to Atari Corporation and, furthermore, specifically and expressly releases Assignor from any further liability for the performance of any terms, condition, or covenant of the Lease after the effective date of this Assignment.

BY:

"LANDLORD"

TICOR TITLE INSURANCE

Application No. 0508412 0000

The land referred to herein is described as follows:

All that certain real property in the City of Sunnyvale, County of Santa Clara, State of California, described as follows:

All of Parcel 3, as shown upon that certain Map entitled, "Parcel Map lying within the City of Sunnyvale being a resubdivision of a portion of parcel A as shown upon that certain parcel Map recorded in Book 242 of Maps at Page 42, Santa Clara County Records", which Map was filed for Record in the Office of the Recorder of the County of Santa Clara, State of California, on November 9, 1976 in Book 383 of Maps, at Page 19.

Appendix I

CAT NO NN00737
TO 1945 CA (7-82)
(Corporation)

TITLE INSURANCE AND TRUST
A TICOR COMPANY

STATE OF CALIFORNIA
COUNTY OF SANTA CLARA } SS.

On FEBRUARY 27, 1985 before me, the undersigned, a Notary Public in and for said State, personally appeared GRAHAM SKINNER personally known to me or proved to me on the basis of satisfactory evidence to be the person who executed the within instrument as the VICE President, and _____ ~~personally known to me or proved to me on the basis of satisfactory evidence to be the person who executed the within instrument as the~~ _____ ~~Secretary of the~~ Corporation that executed the within instrument and acknowledged to me that such corporation executed the within instrument pursuant to its by-laws or a resolution of its board of directors.

WITNESS my hand and official seal.

Signature Mary A. Haycock

STAPLE HERE

OFFICIAL SEAL
MARY A HAYCOCK
NOTARY PUBLIC - CALIFORNIA
SANTA CLARA COUNTY
My comm. expires NOV 7, 1988

(This area for official notarial seal)

CAT. NO. NN00737
TO 1945 CA (7-82)
(Corporation)

TITLE INSURANCE AND TRUST
A TICOR COMPANY

STATE OF CALIFORNIA
COUNTY OF _____ } SS.

On _____ before me, the undersigned, a Notary Public in and for said State, personally appeared _____ personally known to me or proved to me on the basis of satisfactory evidence to be the person who executed the within instrument as the _____ President, and _____ personally known to me or proved to me on the basis of satisfactory evidence to be the person who executed the within instrument as the _____ Secretary of the Corporation that executed the within instrument and acknowledged to me that such corporation executed the within instrument pursuant to its by-laws or a resolution of its board of directors.

WITNESS my hand and official seal.

Signature _____

STAPLE HERE

(This area for official notarial seal)

Exhibit 10.8

ARCH

WHSE - MOFFET

Moffett Park

INDUSTRIAL LEASE AGREEMENT

between

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

and

ATARI, INC.

~~350~~ 360 Caribbean Drive

Sunnyvale, Calif. 94086

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Industrial Lease Agreement Gross Lease

INDUSTRIAL LEASE

I **PARTIES**

THIS LEASE made, for reference purposes only, this 10th day of May , 1976, by and between THE PRUDENTIAL INSURANCE COMPANY OF AMERICA, a New Jersey corporation having its principal place of business at No. 763 Broad Street, Newark, New Jersey, hereinafter referred to as "LESSOR", and ATARI, INC., A CALIFORNIA CORPORATION having its principal place of business at 1195 Borregas Avenue, Sunnyvale, California 94086, hereinafter referred to as "LESSEE".

WITNESSETH

II **PREMISES**

That LESSOR does demise and lease unto LESSEE and LESSEE does hereby take and hire upon and subject to the terms, covenants and conditions herein contained, the following described PREMISES, situated in the City of Sunnyvale, County of Santa Clara, State of California, which are more particularly shown and set forth in Exhibit "A" attached hereto and by reference made a part hereof.

III **USE OF PREMISES**

LESSEE may use and occupy the PREMISES for office, XXXXXXXXXXXXXXXXXXXXXXXX warehouse uses subject to Municipal Zoning Ordinances of the City of Sunnyvale, and for no other purpose.

TERM

The term of this Lease shall be for a period of three (3) years, commencing on the 1st day of October , 19 76, and ending on the 30th day of September , 19 79 .

V **RENTAL**

LESSEE shall pay to LESSOR, in advance without deduction or offset, on the first day of each month of the term hereof, rental for the PREMISES in installments as follows:

$8,910.00 upon execution of this lease, said monies to be applied as first month's rental payment;

$8,910.00 on the first day of each and every month in advance commencing on November 1, 1976 and for the remaining term of this lease.

Rental for any period during the term hereof which is for less than one month shall be a pro rata portion of the monthly installment. Rental shall be payable without notice or demand at the address stated herein or to such persons or at such places as LESSOR may designate in writing.

All rents shall be paid to LESSOR at: 555 California Street, Suite 2400, San Francisco, California 94104
Attention: Property Department

VI **LATE PAYMENT CHARGES**

It is agreed that the LESSEE shall be responsible for and shall pay the LESSOR interest on all sums not paid within five (5) days from the due date thereof at ten (10) percent per annum or the maximum rate allowed by law, whichever is greater, from the due date to and including the date of payment, provided, however, that LESSOR gives LESSEE prior written notice of said nonpayment.

VII **SECURITY DEPOSIT**

As consideration for the full and faithful performance by LESSEE of the term and covenants of this Lease, LESSEE has paid unto LESSOR the sum of Eight Thousand Nine Hundred Ten and No/100------ ($ 8,910.00) DOLLARS the receipt of which is hereby acknowledged.

LESSOR shall have the right to appropriate and apply any portion of the security deposit as may be reasonably necessary to: (a) remedy a default in rent, (b) repair damage caused to the PREMISES by LESSEE; (c) remedy any other covenants or conditions to be performed by LESSEE, that have been breached by LESSEE.

Any remaining portion of the security deposit, after any deductions, shall be returned to the LESSEE within one month after termination of the tenancy, directed to LESSEE at the address left by LESSEE for the forwarding correspondence. LESSEE will be entitled to no interest on any portion of such deposit.

VIII **POSSESSION**

If LESSOR, due to delays in construction of normal TENANT IMPROVEMENTS XXXXXXXXXXXXXXXXX, cannot deliver possession of the said PREMISES to LESSEE on or after 1 November, 1976 at the commencement of the said term as hereinbefore specified, this Lease shall XX be XXXXX void at Lessee's option. XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX See Article XXXXI herein.

IX **ACCEPTANCE OF PREMISES**

By entry hereunder, LESSEE accepts the PREMISES as being in good and sanitary order, condition, and repair and accepts the building and improvements on the demised PREMISES in their present condition and without any representation of warranty by the LESSOR as to condition of said building or as to the use or occupancy which may be made thereof, providing the buildings and improvements comply with all applicable codes and ordinances. Any exceptions to the foregoing must be by written agreement executed by LESSOR and LESSEE. LESSOR agrees that LESSEE shall have the benefit of all warranties provided to LESSOR by its contractors and materialmen.

X **TENANT IMPROVEMENTS**

It is agreed and understood that LESSOR will have full [illegible] the Tenant Improvements to be constructed. It is agreed, however, that LESSOR shall not XXXXXXXX deviate from the building plan, Exhibit "B", without LESSEE'S consent. XXXXXXXXXXXXXXXXXXXXXXXXX

LESSEE shall be permitted to install any additional [illegible] improvements, and the responsibility of LESSOR hereunder [illegible] with LESSOR'S installation of Tenant Improvements on Exhibit "B". If LESSEE delays LESSOR'S completion of said improvements on Exhibit "B", the Lease shall commence on the same date on which it would have commenced had such delays been caused by LESSEE.

XI **HOLDING OVER**

Any holding over after the expiration of the term with the consent of the LESSOR shall be construed to be a tenancy from month to month, at a rental of Eleven Thousand Five Hundred Eighty-Three and No/100 ($ 11,583.00) DOLLARS a month, and shall otherwise be on the terms and conditions herein specified, so far as applicable.

XII **USES PROHIBITED AND WASTE**

LESSEE shall not commit, or suffer to be committed, any waste upon the PREMISES, [illegible] any sale by auction upon the PREMISES, or allow the PREMISES to be used for any improper, immoral, unlawful or objectionable purpose, or place any loads upon the floor, walls, or ceiling [illegible] or which endanger the structure, or

place any harmful liquids in the drainage system of the building unless LESSEE installs proper neutralizers. No waste materials or refuse shall be dumped upon or permitted to remain upon any part of the leased PREMISES outside of the building proper, except in the enclosed trash area provided. No materials, supplies, equipment, products, or articles of any nature shall be stored upon or permitted to remain on any part of the leased PREMISES outside of the building proper. LESSEE is entitled to store such materials, supplies, tanks, and other equipment in the areas specifically shown on Exhibit "A", which shall be properly and attractively screened.

XIII SIGNS

LESSOR has reserved the exclusive right to the exterior walls and roof of the PREMISES, and LESSEE shall not place, nor permit to be placed, upon the exterior walls, roof, or on any portion of the leased Premises, any signs, advertisements or notices whatsoever. LESSOR shall install, as part of the Tenant Improvements, a standard sign to be used for all tenants in The Prudential Office-Research Center, which shall be conspicuously displayed near the entrance of the Premises and which will adequately identify the LESSEE'S company name.

XIV BUILDING MAINTENANCE

Subject to the provisions of Article XXI, and except for damage caused by any negligent or intentional act or omission of LESSEE, LESSEE'S agents, employees, or invitees, LESSOR, at LESSOR'S expense, shall keep in good order, condition and repair the foundations, exterior walls and the exterior roof of the PREMISES. LESSOR shall not, however, be obligated to maintain the interior surface of the exterior walls, windows, doors or plate glass. LESSOR shall have no obligation to make repairs under this Article XIV until a reasonable time after receipt of written notice of need for such repairs. LESSEE expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford LESSEE the right to make repairs at LESSOR'S expense or to terminate this Lease because of LESSOR'S failure to keep the PREMISES in good order, condition and repair.

LESSEE, subject to the provisions of this Article XIV and Article XXI, at LESSEE'S expense, except for warranted items shall keep in good order, condition and repair the PREMISES and every part thereof (regardless of whether the damaged portion of the PREMISES or the means of repairing the same are accessible to LESSEE), including without limiting the generality of the foregoing, all plumbing, heating, ventilating and air conditioning, electrical equipment and lighting fixtures, interior walls, ceilings, windows, doors and plate glass located within the PREMISES. LESSEE shall obtain a monthly heating, ventilating and air conditioning preventive maintenance contract, reasonably approved by LESSOR and paid for by LESSEE, including without limitation replacement of filters, oiling and lubricating of machinery and parts, replacement and/or adjustment of drive belts, oil changes and other preventive maintenance.

If LESSEE fails to perform LESSEE'S obligations under this Article, LESSOR may, at LESSOR'S option, (a) enter upon the PREMISES after ten (10) days prior written notice to LESSEE, and put the same in good order, condition and repair, and the cost thereof together with interest thereon at the rate of ten (10) per cent per annum or the maximum rate allowed by law, whichever is greater, shall be due and payable as additional rent to LESSOR together with LESSEE'S next rental installment; or (b) exercise any and all remedies available to LESSOR pursuant to Paragraph XXIII herein.

XV COMMON AREAS MAINTENANCE

For the purpose of this Lease, the term "Common Areas" means all areas and facilities ~~XXXXXXX~~ as set forth in Exhibit "A", provided and designated by LESSOR for the common use and benefit of the LESSEE and other occupants ~~XXXXXXXXX~~ and their respective customers, employees and invitees. The Common Areas shall include, but are not limited to landscaped areas, walkways, roadways, parking and service areas. LESSOR shall at all times have exclusive control of the Common Areas and may at any time temporarily close any part thereof; exclude and restrain anyone from any part thereof, except bona fide customers, employees and invitees of the LESSEES and other occupants ~~XXXXXXXX~~ who use said areas in accordance with the rules and regulations established from time to time by LESSOR; engage others to operate and maintain all or any part on such terms and conditions as LESSOR shall, in its sole judgment, deem reasonable and proper and make such changes as in its opinion are in the best interest ~~XXXXXXXX~~ the premises. The surface parking facilities shall be available for the automobiles of the LESSEE and other occupants ~~XXXXXXXX~~ and their respective customers, employees and invitees on a non-assigned, non-exclusive basis.

LESSOR shall keep and maintain the Common Areas in good order, condition and repair. The cost of maintaining these areas shall be paid for by LESSOR and shall be computed on an accrual basis, under generally accepted accounting principles. These costs shall include, without limitation, the cost of labor, materials, supplies and services used or consumed in operating and maintaining the Common Areas, to wit:

(1) Landscaping maintenance and replacement;
(2) Cleaning and repairing concrete walkways.
(3) Sweeping and repairing paved parking areas;
(4) Operating and maintaining the parking and landscaping pole lighting;
(5) Maintaining all directional and security signs;
(6) Furnishing water (including sewer rental charge) for all buildings and landscaping.
(7) Pest control service;
(8) Rental or depreciation on maintenance and operating machinery.

The base year for Common Area maintenance costs shall be Calendar Year 19___. Estimated Common Area maintenance costs for the base year are Five Thousand Four Hundred and No/100---------- ($ 5,400.00------) Dollars.

Beginning on the first day of January, 19 77 and on each succeeding year of the Lease, LESSEE shall pay LESSOR, as additional rental, an amount equal to One Hundred (100 %) per cent of the LESSOR'S total estimated increase in such Common Area maintenance costs, over the base year, such increases shall be payable in monthly installments when rent is due. Common Area maintenance costs shall not include any costs (other than the cost of water and sewer rental) attributable to the operation of maintenance of the Pavilion Cafeteria, which shall be the sole expense of the LESSOR. LESSOR'S estimate of annual Common Area maintenance costs shall be adjusted to the actual annual cost each year. In the event this Lease or any extension hereof shall expire on a date earlier than the end of a Calendar Year, LESSOR shall prepare a statement of actual Common Area maintenance costs to the date of the Lease expiration. Any underpayment shall be payable or any overpayment refundable between the parties within ten (10) days of LESSOR'S notice of final accounting for such year or partial Calendar Year.

XVI UTILITIES AND SERVICES

LESSEE shall pay the cost of all gas, electricity, telephone and janitorial services rendered at the PREMISES. LESSEE shall also pay the cost of garbage container rental and pickup from the garbage disposal area shown on Exhibit "A".

XVII TAXES AND ASSESSMENTS

LESSEE shall pay before delinquency any and all taxes, assessments, license fees and public charges levied, assessed or imposed and which become payable during the term of this Lease upon LESSEE'S fixtures, equipment, furniture, furnishings and other personal property installed or located on the PREMISES, or upon LESSEE'S business operation at the PREMISES.

In the event that in any tax year during the term of this Lease the amount of real estate taxes or special assessments shall exceed the amount of such taxes or assessments for the Fiscal Year 19 75 19 76, LESSEE shall pay LESSOR as additional rent, an amount equal to the total increase upon the PREMISES as shown on Exhibit "A", and an amount equal to One Hundred (100 %) per cent of the total increase on the land area and site improvements ~~XXXXXXXXX~~ as shown on Exhibit "A" hereto. LESSOR shall calculate any tax increase from the valuations assigned by the assessor, whether such increase is caused by increased or added rate or increased assessed valuation or both or by increase in, or by reason of any new, general or special assessment. The amount of LESSEE'S obligation under this Article XVII shall be prorated for any partial tax year.

If in any tax year a tax or excise on rents or other tax, however described, is levied or assessed against LESSOR on account of the rents reserved hereunder, as a substitute in whole or in part for real estate taxes levied or assessed ~~XXXXXXXXX~~ such tax or excise on rents or other tax shall be deemed to constitute real estate taxes ~~XXXXXXXX~~ for the purpose of this Article XVII. Any payments due under the terms of this Article XVII are payable within ten (10) days of LESSOR'S notice to LESSEE.

XVIII INSURANCE

LESSEE shall not use, or permit said PREMISES, or any part thereof, to be used, for any purpose other than that for which the said PREMISES are hereby leased and no use shall be made or permitted to be made of the said PREMISES, nor acts done, which will cause a cancellation of any insurance policy covering said building, or any part thereof, nor shall LESSEE sell or permit to be kept, used or sold, in or about said PREMISES, any article which may be prohibited by the standard form of fire insurance policies. LESSEE shall, at its sole cost and expense, comply with any and all requirements, pertaining to said PREMISES, of any insurance organization or company necessary for the maintenance of reasonable fire and public liability insurance, covering said building and appurtenance. The LESSOR agrees to purchase at competitive rate and keep in force fire and extended coverage insurance covering the leased PREMISES in amounts not to exceed the actual insurable value of said PREMISES. LESSEE agrees that if the rates for fire and extended coverage insurance are increased after occupancy over the existing rates for such insurance upon the building in which said PREMISES are located or are increased due to the nature of the LESSEE'S business, or higher amounts as may be necessary due to the increase value of the PREMISES, the LESSEE will pay, within ten (10) days of LESSOR'S notice to LESSEE, the pro rata amount of the premium increases from any or all of the above causes. LESSEE shall, at its own expense maintain adequate fire insurance and extended coverage upon its trade fixtures, equipment, LESSEE shall not be liable to LESSOR for the premises for any earthquake or flood insurance which may be carried by LESSOR.

furniture, furnishings and other personal property stored or located in the PREMISES. LESSEE, shall also, at LESSEE'S sole cost and expense but for the mutual benefit of LESSOR and LESSEE, maintain full general public liability insurance against claims for bodily injury, death or property damage occurring upon, in or about the leased PREMISES including common areas, or arising from the use and occupancy thereof, such insurance to afford protection to the limit of not less than Five Hundred Thousand and No/100 ($500,000.00) Dollars in respect to injury or death of a single person, and to the limit of not less than One Million and No/100 ($1,000,000.00) Dollars in respect to any one (1) accident and to the limit of not less than One Million and No/100 ($100,000.00) Dollars in respect to property damage, insuring the LESSEE and naming LESSOR as an additional insured, and that boiler insurance on all steam boilers, pressure boilers, or other such apparatus in such amount or amounts as LESSOR may from time to time reasonably require.

All policies of insurance shall be written by companies satisfactory to LESSOR and authorized to do business in California, and shall be written in such form and shall be distributed by such companies as shall be reasonably acceptable to LESSOR. Certificates evidencing insurance coverage required hereunder shall be furnished to LESSOR upon commencement of the lease term and shall provide at least ten (10) days written notice to LESSOR prior to the cancellation of or material change in such insurance.

XIX ALTERATIONS AND ADDITIONS

LESSEE shall not make nor permit any alterations, additions, or improvements to the leased PREMISES without prior written consent of LESSOR, which consent shall not be unreasonably withheld. In the event LESSOR consents to the proposed alterations, additions or improvements, the same shall be at LESSEE'S expense, and LESSEE shall hold LESSOR harmless therefor. Any such alterations including heating, lighting, electrical, air conditioning, partitioning, drapery and carpeting installation made by LESSEE, which properly has become an integral part of said building shall be and become the property of LESSOR upon installation and shall not be deemed trade fixtures. If required by LESSOR in writing, as a condition to LESSOR'S consent, such alterations shall be removed by LESSEE upon the termination or sooner expiration of the term of this Lease and LESSEE shall repair damage to the PREMISES caused by such removal, all at LESSEE'S expense.

LESSEE shall give LESSOR at least (20) days prior written notice of the date of commencement of any construction in or upon the PREMISES, and LESSOR shall have the right at all times to post Notices of Nonresponsibility on the PREMISES in connection therewith. LESSEE hereby indemnifies and agrees to hold LESSOR free and harmless from all liens and claims of lien, and all other liabilities, claims and demands arising out of any work done or materials supplied to the PREMISES by or at the request of the LESSEE, its agents, employees, or contractors.

XX ASSIGNMENT AND SUBLETTING

LESSEE shall not assign this Lease or sublet the PREMISES, either in whole or in part, nor mortgage or otherwise hypothecate the leasehold interest of LESSEE, or any part or parts thereof without first obtaining in each and every instance, LESSOR'S written consent which consent shall not be unreasonably withheld, provided, however, that LESSEE may, without obtaining LESSOR'S consent, (a) assign or transfer this Lease to any successor corporation, provided all or a majority of the assets of the LESSEE are transferred to the successor corporation and such successor assumes LESSEE'S obligations hereunder, or (b) sublet the PREMISES to any wholly owned subsidiary of LESSEE.

XXI DAMAGE TO OR DESTRUCTION OF PREMISES

In the event of a partial destruction of the PREMISES during the term herein from any cause, LESSOR shall forthwith repair the same, provided such repairs can be made within ninety (90) days, but such partial destruction shall in no way annul or void this Lease, except that LESSEE shall be entitled to a proportionate deduction of rent while such repairs are being made, such proportionate deduction to be based upon the extent to which the making of such repairs shall interfere with the business carried on by LESSEE in the said PREMISES. If such repairs cannot be made in ninety (90) days, LESSOR ~~may at his option~~ make same within a reasonable time, this Lease continuing in full force and effect and the rent to be proportionately reduced as provided herein. In the event that LESSOR does not so elect to make such repairs which cannot be made in ninety (90) days, or such repairs cannot be made under existing laws and regulations, this Lease may be terminated at the option of either party. In respect to any partial destruction which LESSOR is obligated to repair or may elect to repair under the terms of this Article XXI, the provisions of Section 1932, Subdivision 2, and of Section 1933, Subdivision 4, of the Civil Code of the State of California are waived by LESSEE. In the event that the building in which the demised PREMISES may be situated be destroyed to the extent of not less than thirty-three and one-third (331/3%) per cent of the replacement cost thereof, LESSOR may elect to terminate this Lease, whether the demised PREMISES be injured or not. A total destruction of the building in which the said PREMISES may be situated shall terminate this Lease.

or Lessee may terminate this Lease on twenty (20) days written notice. If neither party so elects Lessor shall

XXII CONDEMNATION

If the whole or any part of the PREMISES shall be taken or condemned by any competent authority for any public or quasi-public use or purpose, which taking or condemnation shall render the PREMISES unfit for the use which LESSEE was utilizing the PREMISES immediately prior to the taking or condemnation, then this Lease and any extension hereof shall terminate on the date when the possession of the part so taken shall be acquired for such use or purpose, and the rental payments made or required to be made under this Lease by LESSEE shall be abated and prorated as of the date of possession by the condemnor arising from such taking. In the event a part of the PREMISES shall be so taken or condemned and shall not result in the termination of the Lease as hereinabove provided, then this Lease shall terminate as to that portion of the PREMISES taken and the rental payments made or required to be made under this Lease as to the portion of the PREMISES taken shall be abated and prorated as of the date of possession by the condemnor. This Lease shall continue in full force and effect as to that portion of the PREMISES not so taken.

LESSOR shall be entitled to receive the proceeds of all such condemnation awards and LESSEE hereby assigns to LESSOR all of its interest in such awards, provided, however, that LESSEE shall not be precluded hereunder from advancing a claim or obtaining an award for the value of its improvements placed in or on the PREMISES by LESSEE.

XXIII DEFAULT

If: (a) LESSEE shall fail to pay any rent or other sum payable hereunder for a period of ten (10) days after the same is due; (b) LESSEE shall fail to observe, keep or perform any of the other terms, covenants, agreements or conditions contained herein and on the part of LESSEE to be observed or performed and such default continues for a period of thirty (30) days after written notice by LESSOR or beyond the time reasonably necessary for cure if such default is of a nature to require more than thirty (30) days to remedy; (c) LESSEE shall become bankrupt or insolvent or make a transfer in fraud of creditors, or make an assignment for the benefit of creditors, or take or have taken against LESSEE any proceedings of any kind under any provision of the Federal Bankruptcy Act or under any other insolvency, bankruptcy or reorganization act and in the event any such proceedings are involuntary, LESSEE is not discharged from the same within sixty (60) days thereafter; (d) a receiver is appointed for a substantial part of the assets of LESSEE; (e) LESSEE shall ~~vacate or~~ abandon the PREMISES, or (f) this Lease or any estate of LESSEE hereunder shall be levied upon any attachment or execution, then any such event shall constitute an event of default by LESSEE. Upon the occurrence of any event of default by LESSEE hereunder, LESSOR may, at its option and without any further notice or demand, in addition to any other rights and remedies given hereunder or by law, do any of the following

INITIAL

(i) LESSOR shall have the right, so long as such default continues, to terminate this Lease by giving to LESSEE written notice of such termination.

(ii) In the event of any such termination of this Lease, LESSOR may then or at any time thereafter, reenter the PREMISES and remove therefrom all persons and property and again repossess and enjoy the PREMISES without prejudice to any other remedies that LESSOR may have by reason of LESSEE'S default or of such termination.

(iii) In the event of any such termination of this Lease, and in addition to any other rights and remedies LESSOR may have, LESSOR shall have all the rights and remedies of a Landlord provided by Section 1951.2 of the California Civil Code. The amount of damages which LESSOR may recover in event of such termination shall include, without limitation (a) the worth at the time of award (computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one (1) per cent) of the amount by which the unpaid rent for balance of the term after the time of award exceeds the amount of rental loss that LESSEE proves could be reasonably avoided, (b) any legal expenses and other costs incurred by LESSOR in effecting recovery of possession of the PREMISES, (c) all costs incurred by LESSOR in securing the PREMISES in good order and condition, or in remodeling, renovating or otherwise preparing the PREMISES for reletting, and (d) all costs including, without limitation, any brokerage commissions, incurred by LESSOR in reletting the PREMISES.

(iv) In the event LESSEE breaches this Lease or abandons the PREMISES and LESSOR does not elect to terminate this Lease by reason of such breach or abandonment, this Lease shall continue in full force and effect, and in addition to any other rights and remedies LESSOR may have, LESSOR shall have all of the rights and remedies of a Landlord provided by Section 1951.4 of the California Civil Code, including the right to recover rent as it falls due. Without any obligation to do so, LESSOR may also relet the PREMISES as the agent of LESSEE and for LESSEE'S account for such term, which may extend beyond the term of this Lease, and upon such other items and conditions as LESSOR may deem appropriate. LESSOR may do all things reasonably necessary for such reletting, including repair, remodeling and renovation of the PREMISES and LESSOR may do all things reasonably necessary for such reletting, including in connection therewith. In the event LESSOR relets the PREMISES, LESSOR shall apply any sums received upon such reletting in the following order of priority (a) to the payment of any indebtedness other than rent due hereunder from LESSEE to LESSOR, (b) to the payment of all costs incurred by LESSOR in reletting the PREMISES to good order and repair, or in remodeling, renovating or otherwise preparing the PREMISES for reletting, (c) to the payment of rent due hereunder from LESSEE to LESSOR, (d) to the payment of all costs incurred by LESSOR in reletting the PREMISES, (e) to the payment of all costs including, without limitation, any brokerage commissions incurred by LESSOR in reletting the PREMISES, (f) to the payment of rent due and unpaid hereunder, (g) the balance, if any, to the payment of future rent as the same may become due hereunder. Notwithstanding any distributions by LESSOR not to elect to terminate this Lease, LESSOR may at any time elect to terminate the Lease for any previous breach or default hereunder by LESSEE which remains uncured or for any subsequent breach or default.

(v) For the purpose of determining the unpaid rent for the balance of the term in the event of a termination of this Lease, or the rent due hereunder in the event of a reletting of the PREMISES, the monthly rent reserved in this Lease shall be deemed to be the sum of the following: (a) the minimum rent, (b) the amounts last payable by LESSEE pursuant to the property tax paragraph above, prorated on the basis of a thirty (30) day month, and (c) the amounts payable by LESSEE pursuant to Paragraph XIV and XV.

(vi) After terminating this Lease, LESSOR may remove any and all personal property located in the PREMISES and place such property in a public or private warehouse or elsewhere at the sole cost and expense of LESSEE. In the event that LESSEE shall not immediately pay the cost of storage of such property after the same has been stored for a period of thirty (30) days or more, LESSOR may sell any or all thereof at a public or private sale in such a manner and at such times and places as LESSOR in its sole discretion may deem proper, without notice to or demand upon LESSEE. LESSEE waives all claims for damages that may be caused by LESSOR'S removing or storing or selling the property as herein provided, and LESSEE shall indemnify and hold LESSOR free and harmless from and against any and all losses, costs and damages, including without limitation all attorney's fees and costs of LESSOR occasioned thereby.

XXIV **WAIVER**

No waiver of any breach or breaches of any provision, covenant, or condition of this Lease shall be construed to be a waiver of any preceding or succeeding breach of such provision, covenant or condition, or any other provision, covenant or condition.

XXV **TIME**

Time is of the essence of each and every provision, covenant and condition herein contained and on the part of either LESSEE or LESSOR to be done and performed.

XXVI **LITIGATION**

In the event any action shall be brought by either party hereto against the other regarding terms and conditions of this Lease, the prevailing party shall recover a reasonable sum as attorney's fees and costs.

XXVII **RIGHT OF ENTRY**

LESSOR, or its agents, may at any reasonable time during business hours enter in and upon the PREMISES to make repairs, post notices, or inspect said PREMISES, and LESSOR may enter the PREMISES during business hours to show the PREMISES to prospective tenants within one hundred twenty (120) days prior to termination. The above rights are subject to such security regulations as may be imposed by the United States Government or any agency thereof and to LESSEE'S own reasonable security regulations.

XXVIII **QUIET ENJOYMENT**

LESSOR covenants and agrees that LESSEE, upon performing the covenants, agreements and conditions of this Lease to be kept and performed by LESSEE, shall lawfully and quietly hold, occupy and enjoy said demised PREMISES during the term of this Lease, without hindrance or molestation by LESSOR, or any person or persons claiming under LESSOR.

HOLD HARMLESS

LESSEE'S

Except as in this Lease otherwise provided, LESSEE hereby agrees to indemnify and hold harmless LESSOR from all claims and liability arising out of ~~its~~ use of the PREMISES during the term hereof, except for any claim or liability resulting from the failure or neglect of LESSOR to perform in accordance with the provisions hereof or resulting from the acts or ommissions of LESSOR, its agents or employees.

XXX **SUBORDINATION** INSERT I

~~XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX ment of security which has been or shall be placed on the land and/or building of which the PREMISES form a part, and this subordination is hereby made effective without any further act of LESSEE. The LESSEE shall, at any time hereinafter, on demand, execute any instruments, releases, or other documents that may be required by LESSOR or any mortgagee, mortgagor, or trustor or beneficiary under any deed of trust for the purpose of subjecting and subordinating this Lease to the lien of any such mortgage, deed of trust or other instrument of security, and the failure of the LESSEE to execute any such instruments, releases or documents, shall constitute a default hereunder. Notwithstanding such subordination, LESSEE'S right to quiet possession of the PREMISES shall not be disturbed if LESSEE is not in default and so long as LESSEE shall pay the rent and observe and perform all of the provisions of the Lease, unless XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX~~

XXXI **ESTOPPEL CERTIFICATE**

LESSEE shall, at any time and from time to time upon not less than ten (10) days' prior request by LESSOR, execute, acknowledge and deliver to LESSOR a statement in writing certifying that (a) this Lease is unmodified and in full force and effect (or if there have been modifications that the same is in full force and effect as modified and identifying the modifications); (b) the dates to which the Basic Rent and other charges have been paid, and (c) so far as the person making the certificate knows, LESSOR is not in default under any provisions of this Lease. It is intended that any such statement may be relied upon by any person proposing to acquire LESSOR'S interest in this Lease or any prospective mortgagee of, or assignee of any mortgage upon, such interest.

XXXII **REGULATORY COMPLIANCE**

LESSOR agrees that in the event any properly constituted authority having jurisdiction requires with or without a specific order against LESSOR or LESSEE that alterations or repairs be made to the PREMISES in order for said PREMISES to comply with any Federal, State or local law or regulation, building code or ordinance, LESSOR shall promptly and at his expense make such alterations or repairs; provided, that if such alterations or repairs are required solely by reason of a change in the use of the PREMISES from those contemplated as of this date or if such alterations or repairs are necessitated by additions or modifications made by LESSEE, the cost of all such alterations or repairs shall be borne by LESSEE.

LESSEE agrees to pay as additional rent to LESSOR, upon demand, its pro rata share of any parking charges, utilities surcharges, or any other costs levied, assessed or imposed by, or at the direction of, or resulting from statutes or regulations, or interpretations thereof, promulgated by any Federal, State, Municipal or local Governmental authority in connection with the use or occupancy of the leased PREMISES or the parking facilities serving the leased PREMISES.

XXXIII **SURRENDER OF PREMISES**

LESSOR'S negligence, willful misconduct, and damage caused by faulty construction and structural defects.

LESSEE, at the expiration of this Lease, shall deliver up the leased PREMISES in good condition and repair (damage by acts of God, fire, and normal wear and tear excepted), with all interior walls painted or cleaned, the air conditioning and heating equipment serviced by a reputable serviceman, and with all floors cleaned or waxed, together with alterations, additions and improvements which may have been made in, to, or on the PREMISES (except XXXXX trade fixtures put in at the expense of LESSEE) except that LESSEE shall ascertain from LESSOR within thirty (30) days before the end of the term of this Lease whether LESSOR desires to have the PREMISES or any part or parts thereof restored to their condition when the PREMISES were delivered to LESSEE, and if LESSOR shall so desire, then LESSEE shall restore said PREMISES or such part or parts thereof before the end of this Lease at LESSEE'S sole cost and expense. Provided, however, LESSEE shall in no event be required to restore any part or portion of the PREMISES whereon the additions and improvements were made with the written consent of LESSOR, unless at the time said written consent was given LESSOR and LESSEE agreed in writing that LESSOR would have the right to demand restoration of that part or portion of the PREMISES upon which the additions or improvements in question were made. LESSEE on or before the end of the term or sooner termination of this Lease, shall remove all of LESSEE'S personal property and trade fixtures from the PREMISES. If the PREMISES be not surrendered at the end of the term or sooner termination of this Lease, LESSEE shall indemnify LESSOR against loss or liability resulting from delay by LESSEE in so surrendering the PREMISES including, without limitation, any claims made by any succeeding LESSEE founded on such delay.

XXXIV **INTERPRETATION**

This Lease shall be construed according to the laws of the State of California XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX Wherever the context so requires, words used herein in the masculine gender shall be deemed to include the feminine and neuter, and the words used herein in the singular shall be deemed to include the plural.

XXXV **BINDING EFFECT**

This Lease shall bind and inure to the benefit of the parties hereto and their respective heirs, representatives, successors or assigns (provided that this Lease shall not inure to the benefit of any assignee pursuant to an assignment which is not in compliance with the terms of this Lease relating to assignment and subletting).

XXXVI **COVENANTS, CONDITIONS AND RESTRICTIONS**

LESSEE acknowledges that it has read and understood the Covenants, Conditions and Restrictions of MOFFETT PARK herein attached as Exhibit "C", and will abide by the provisions thereof as they apply to the use and occupancy of the PREMISES.

XXXVII NOTICES

All notices to be given or served hereunder, whether pursuant to the terms of this Lease or any provision of law, shall be given or served in writing either in person or by United States registered mail, postage prepaid, at the address stated herein or to such persons or at such places as LESSOR or LESSEE may designate in writing.

TO LESSOR AT: 155 Moffett Park Drive, Building A - Suite 101, Sunnyvale, CA. 94086

TO LESSEE AT: 1195 Borregas Avenue
Sunnyvale, California 94086

XXXVIII ENTIRE AGREEMENT

This Lease is the entire agreement between the parties and there are no agreements or representations between the parties except as expressed herein.

XXXIX OTHER TERMS AND CONDITIONS

The addendum attached hereto containing Articles XXXX through XXXXI is a part of this lease and incorporated herein by reference.

INSERT 1

LESSEE shall, subject to the conditions set forth below, at the request of LESSOR, cause its interest to become subordinate to any mortgage, deed of trust or other instrument of security which has been or shall be placed on the land and building or land or building of which the PREMISES form a part. The LESSEE shall, at any time hereinafter, on demand, execute any instruments, releases, or other documents that may be required by any mortgagee, mortgagor, or trustor or beneficiary under any deed of trust for the purpose of subjecting and subordinating this Lease to the lien of any such mortgage, deed of trust or other instrument of security, and the failure of the LESSEE to execute any such instruments, releases or documents, shall constitute a default hereunder.

IN WITNESS WHEREOF, LESSOR and LESSEE have executed this Lease as of the day and year first above written.

LESSOR	LESSEE
THE PRUDENTIAL INSURANCE COMPANY OF AMERICA	ATARI, INC.
By:	By:
By:	By:

Prudential

ADDENDUM TO LEASE BETWEEN THE PRUDENTIAL INSURANCE COMPANY OF AMERICA, LESSOR, AND ATARI, INC., LESSEE, FOR PREMISES AT 452 CARIBBEAN DRIVE, SUNNYVALE, CALIFORNIA, DATED MAY 10, 1976.

XXX CONSTRUCTION OF TENANT IMPROVEMENTS

LESSOR shall pay all costs (hereinafter called the "Tenant Improvement Work Costs") of performing the Tenant Improvement Work, as outlined on Exhibit "B" attached hereto, up to a maximum cost of one hundred and eighteen thousand and No/100 DOLLARS ($118,000.00). The Tenant Improvement Work Costs shall include, but not be limited to: INITIALS

(a) All costs of obtaining building permits and other necessary authorizations from the City of Sunnyvale;

(b) All costs of installing utility conduits necessary to connect the Premises with existing utility transformer pads;

(c) All costs of installing required telephone conduits in the Premises;

(d) All direct and indirect costs of procuring and installing tenant improvements in the Premises, including, without limitation, the cost of all on-site supervisory and administrative staff, office, equipment and temporary services rendered by LESSOR'S contractor in connection with the Tenant Improvement Work;

(e) A design and construction fee payable to LESSOR'S architectural and engineering firm in an amount equal to seven and two-tenths per cent (7.2%) of the aggregate of the costs referred to in paragraphs (a) through (e) of this section VI.

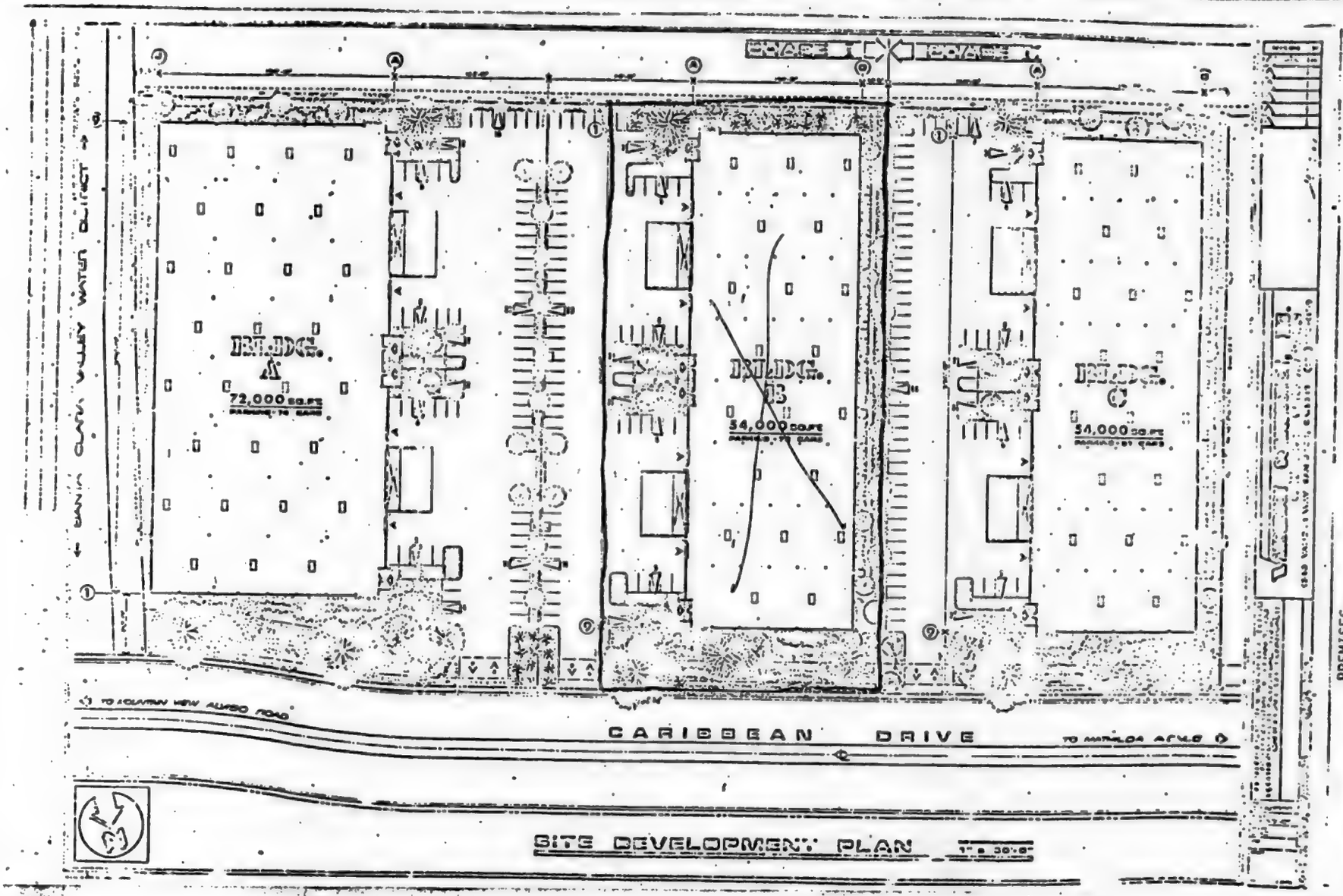
(f) A fee payable to Adamson Associates for checking, auditing and certifying the costs incurred by LESSOR'S contractor in connection with the Tenant Improvement Work (such fee shall not exceed one thousand three hundred fifty six and no/100 dollars ($1,356.00) for all Tenant Improvement Work completed prior to occupancy;

(g) All fees payable to LESSOR'S architectural and engineering firm if it is required by Lessee to redesign any portion of the Tenant Improvment Work following Lessee's approval of the preliminary plans therefore (such fee to be an amount equal to two hundred fifty per cent (250%) of the total personnel expenses incurred by Lessor's architectural and engineering firm, as a result of such redesign work).

In no event shall the Tenant Improvement Work Costs include any costs of procuring or installing in the Premises any trade fixtures, equipment, furniture, furnishings, telephone equipment or other personal property to be utilized in the Premises by Lessee.

XXXI DELAYS

Neither Lessor nor Lessee shall be responsible to the other for delay or failure to meet any condition or covenant in this lease caused by strikes, lockouts, acts of God, or any other cause which is beyond the control of such party. Any delay due to such causes shall not be deemed a breach of this lease. It being specifically agreed that any time limit provision contained in this lease shall be extended for the same period of time lost by causes set forth herein above, provided that such extension shall not apply to the time within which the payment of any money is due herein or to extend the term of this lease. In any event, if LESSOR, for any reason whatsoever, cannot deliver possession of the Premises to LESSEE by December 1, 1977, this Lease shall be voidable at LESSEE'S option. INITIALS



PREMISES
452 Caribbean Drive, Sunnyvale, California 94086
54,000 ± sq.ft. warehouse facility for Atari, Inc.

EXHIBIT V

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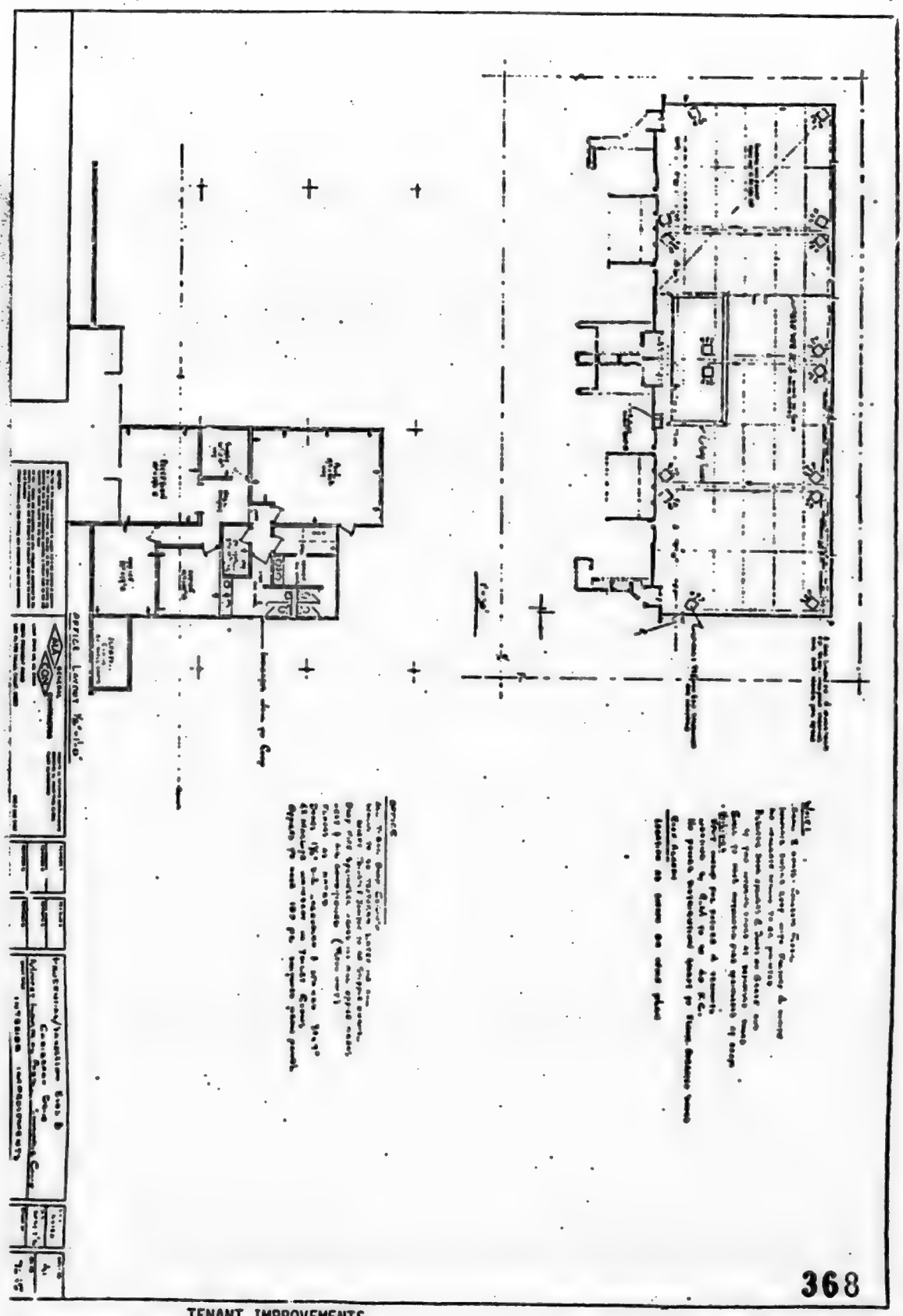

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TENANT IMPROVEMENTS

452 Caribbean Drive, Sunnyvale, California 94086

EXHIBIT B

DECLARATION OF PROTECTIVE COVENANTS
MOFFETT INDUSTRIAL PARK NO. 1

THIS DECLARATION, made this 4th day of January, 1968, by MOFFETT PARK ASSOCIATES, a partnership, the members of which are Atkinson Development Company, a California corporation, Dillingham Construction Company, an Oregon corporation, and R.A. Trippeer, Inc., a Nevada corporation,

W I T N E S S E T H :

WHEREAS Moffett Park Associates is the owner of that certain real property located in the City of Sunnyvale, County of Santa Clara, State of California, described as follows (hereinafter called "Moffett Industrial Park No. 1"):

Parcels 2, 3 and 4 as shown upon that certain map entitled "Parcel Map for: Guy F. Atkinson Company being a portion of Rancho Pastoria De Las Borregas, Crossman Sub. No. 2, T J Murphy Sub. No. 3," which map was filed for record in the Office of the Recorder of the County of Santa Clara, State of California, on September 13, 1966, in Book 214 of Maps, at pages 20 through 23;

and

WHEREAS Moffett Park Associates proposes to subdivide Moffett Industrial Park No. 1 and to subject it to the following restrictions;

NOW, THEREFORE, Moffett Park Associates hereby declares that Moffett Industrial Park No. 1 is and shall be held, conveyed, encumbered, leased and used subject to the following uniform restrictions, covenants and equitable servitudes in furtherance of a plan for the subdivision, improvement and sale thereof and to enhance the value, desirability and attractiveness of Moffett Industrial Park No. 1, the restrictions set forth herein shall run with the real property included within Moffett Industrial shall be binding upon all persons having or acquiring any interest in such real property or any part thereof, shall inure to the benefit of every portion of Moffett Industrial Park No. 1 and any interest therein and shall inure to the benefit of and be binding upon each successor in interest of Moffett Park Associates and may be enforced by Moffett Park Associates or its successors in interest or by any Owner (as defined in Article I below) or his successors in interest.

I. GENERAL PROVISIONS.

A. Definitions.

1. "Architectural Control Committee" means MPA, or any committee which MPA may appoint by an appropriate instrument recorded with the Santa Clara County Recorder.
2. "MPA" means (a) Moffett Park Associates or (b) Moffett Industrial Park No. 1 Owners Association upon the transfer of the rights and duties of Moffett Park Associates to such Association in accordance with Article VIII.
3. "Lot" means each lot shown on the parcel or subdivision map, or maps for Moffett Industrial Park No. 1.
4. "Site" means a parcel consisting either of a Lot, a portion of a Lot, contiguous Lots, or portions of contiguous Lots.
5. "Improvements" means all improvements to a Site including, but without limitation, buildings, loading areas, trackage, parking areas, pavement, poles, fences, landscaping, signs and structures of any type.
6. "Building" means the main portion of any building or similar structure and all projections or extensions thereof, including garages, outside platforms and docks.
7. "Owner" means the person or persons, partnership or corporation in whom title to a Site is vested, as shown by the official records of the Office of the County Recorder of Santa Clara County. "Owner" does not mean mortgagees, trustees and beneficiaries of deeds of trust or holders of any indebtedness secured by a mortgage or deed of trust.

B. Purpose of Restrictions.
The purpose of these covenants, conditions and restrictions is to insure proper development and use of Moffett Industrial Park No. 1, to protect the Owner of each Site against such improper development and use of other Sites as will depreciate the value of his Site, to prevent the erection of structures of unsuitable or inharmonious design or construction, to secure and maintain sufficient setbacks from streets and between structures, to maintain Common Landscaping (as defined in Article V) and in general to provide for a high quality of improvement of Moffett Industrial Park No. 1 in accordance with a general plan.

II. REGULATION OF IMPROVEMENTS.

A. Minimum Setback Lines.
No Improvement shall be constructed upon any Site within fifty (50) feet of the right-of-way line of any public street. No Improvement other than landscaping, paving and fences shall be constructed upon any Site within twenty (20) feet of any other Site. The Architectural Control Committee may approve lesser setback lines if in its opinion a variation would be compatible with the general development of Moffett Industrial Park No. 1.

B. Ground Coverage.
No more than forty-five per cent (45%) of the surface of any Site shall be covered with a Building or Buildings.

C. Construction Operations.
Construction of all Improvements shall be expedited so that none shall remain in a partially finished condition any longer than reasonably necessary for the completion thereof.

D. Excavation.
No excavation shall be made on, and no sand, gravel or soil shall be removed from, any Site, except in connection with the construction of Improvements, and upon completion thereof, exposed openings shall be backfilled, and disturbed ground shall be graded, leveled and paved or landscaped.

E. Landscaping.
Within ninety (90) days of the occupancy or completion of any Building on a Site, whichever occurs first, such Site shall be landscaped in accordance with plans approved by the Architectural Control Committee. The Owner of the Site shall maintain such landscaping in good order and condition.

F. Signs.
No billboard or advertising signs shall be permitted on any Site other than those approved by the Architectural Control Committee which identify the name, business and products of the person or firm occupying the Site or offer the Site for sale or lease.

G. Parking Areas.
Each Site shall have facilities for parking sufficient to serve the business conducted thereon without using adjacent streets therefor, and no use shall be made of any Site which would require parking in excess of the parking spaces on the Site. In any event the number and size of the parking spaces on each Site shall conform with all ordinances of the City of Sunnyvale applicable with respect thereto. Parking areas shall be laid out and constructed according to plans approved by the Architectural Control Committee and shall be maintained thereafter in good condition. Except with the approval of the Architectural Control Committee no parking shall be permitted within fifty (50) feet of the right-of-way line of any street or between any Building and any street.

H. Loading Areas.
All vehicle loading and unloading in connection with an Owner's business shall be conducted upon his Site, and sufficient space shall be provided therefor. Loading Areas shall be screened from view from streets and adjoining properties by a visual barrier not less than six (6) feet in height. Except with the prior written approval of the Architectural Control Committee, loading areas shall not be located between any Building and any street or any closer than seventy-five (75) feet to the right-of-way line of any street.

I. Storage Areas.
No materials, supplies, equipment or trash containers shall be stored on a Site except inside a Building or behind a visual barrier not less than six (6) feet in height or rising two (2) feet above the stored materials, supplies or equipment, whichever is higher, screening such storage areas from view from streets and adjoining Sites. Except with the prior written approval of the Architectural Control Committee, storage areas shall not be located between any Building and any street.

J. Building Regulations.
All Buildings shall be constructed and maintained in accordance with the following standards unless an exception is approved in writing by the Architectural Control Committee:

1. Exterior walls shall be of masonry, concrete or approved equal material.
2. Exterior walls shall be painted or otherwise finished in a manner acceptable to the Architectural Control Committee. Exterior walls shall not be repainted or refinished unless and until the Architectural Control Committee shall have approved the color or refinishing materials to be used.
3. All Buildings shall be maintained in good order and repair and condition. All exterior painted surfaces shall be maintained in first class condition and shall be repainted at least once every five (5) years.
4. All electrical, telephone and other utility lines shall be underground and shall not be exposed on the exterior of any Building.
5. All electrical and mechanical apparatus, equipment, fixtures (other than lighting fixtures) conduit, ducts, vents, flues and pipes located on the exterior of any Building shall be concealed from view and shall be architecturally treated in a manner acceptable to the Architectural Control Committee.

III. APPROVAL OF PLANS.

No Improvement shall be erected, placed, altered, maintained or permitted to remain on any Site until plans and specifications showing plot layout and all exterior elevations, with materials and colors therefor and structural design, signs and landscaping shall have been submitted to and approved in writing by the Architectural Control Committee. Such plans and specifications shall be submitted in writing over the signature of the Owner of the Site or his authorized agent. Approval shall be based, among other things, on adequacy of Site dimensions, adequacy of structural design, effect of location and use of improvements on neighboring Sites, improvements, operations, and uses, relation of topography, grade, and finished ground elevation of the Site being improved to that of neighboring Sites, proper facing of main elevation with respect to nearby streets, and conformity of the plans and specifications to the purpose and general plan and intent of this Declaration. The Architectural Control Committee shall not arbitrarily or unreasonably withhold its approval of such plans and specifications. If the Architectural Control Committee fails either to approve or disapprove such plans and specifications within thirty (30) days after the same have been submitted to it, it shall be conclusively presumed that the Architectural Control Committee has approved said plans and specifications, subject, however, to the restrictions contained in Articles II and IV hereof.

Neither the Architectural Control Committee nor its successors or assigns shall be liable in damages to anyone submitting plans to them for approval, or to any Owner by reason of mistake in judgment, negligence, or nonfeasance arising out of or in connection with the approval or disapproval or failure to approve any such plans. Every person who submits plans to the Architectural Control Committee for approval agrees, by submission of such plans, and every Owner agrees, by acquiring title to a Site, that he will not bring any action or suit against the Architectural Control Committee to recover any such damages.

Notwithstanding anything to the contrary contained herein, after the expiration of one (1) year from the date of issuance of a building permit by municipal or other governmental authority for any Improvement, said Improvement shall, in favor of purchasers and encumbrancers in good faith and for value, be deemed to be in compliance with all provisions of this Article III, unless actual notice of such noncompliance or noncompletion, executed by the Architectural Control Committee, shall appear of record in the Office of the Recorder of Santa Clara County, California, or unless legal proceedings shall have been instituted to enforce compliance or completion.

IV. REGULATION OF OPERATIONS AND USES.

A. Permitted Operations and Uses.

1. Except as provided in paragraphs B and C below, any industrial use will be permitted on a Site including, but without limitation, manufacturing, processing, storage, wholesale, office, laboratory, professional and research and development. Such retail uses as may be required for the convenience of Owners and their employees shall be permitted on Parcels 3 and 4 of Moffett Industrial Park No. 1 and such retail uses may include, but without limitation, restaurants, drug stores, barber and beauty shops, shoe repair shops, cleaners, hotels, post offices, banks, and automobile service stations. In no event shall any retail use be permitted on Parcel 2 of Moffett Industrial Park No. 1. Such municipal, governmental and public utility uses as may be necessary or appropriate shall be permitted.

B. Prohibited Operations and Uses.

No Site shall be used as a junk yard, stock yard, or slaughter yard or for commercial excavation of building or construction materials, fat rendering or distillation of bones, dumping, disposal, incineration or reduction of garbage, sewage, offal, dead animals or refuse, or the smelting of iron, tin, zinc or other ores or the processing or drilling for natural gas, oil or like substances, except with the prior written permission of the Architectural Control Committee, and then only in such manner as will not materially inconvenience other Owners or materially depreciate the value of adjacent property.

C. Nuisance.

No noxious or offensive activity shall be carried on nor shall anything be done on any Site which may be or become an annoyance or nuisance to the Owners or occupants of other Sites or which will be offensive by reason of odor, fumes, dust, dirt, fly ash, smoke, noise, glare or which will be hazardous by reason of danger of fire or explosion.

V. COMMON LANDSCAPING.

The Owner of each Site shall maintain landscaping existing thereon at the time of purchase ("Common Landscaping") in a condition that meets the approval of the Architectural Control Committee. In the event that the Owner of any Site does not maintain Common Landscaping in such condition or the landscaping described in Article III E as thereon provided, MPA or its agents shall have the right to maintain such landscaping in such condition. MPA or its agents shall have the right at any reasonable time to enter onto any Site for the purpose of such maintenance and for such other purposes as are reasonably related thereto. MPA shall use due diligence and reasonable care in repairing, maintaining and installing Common Landscaping to see that such repair, maintenance and installation does not interfere with the Owner's use of its Site. In the event that MPA or its agents should undertake any such maintenance on any such Site, the Owner thereof shall reimburse MPA for all of MPA's costs incurred in such maintenance. In any legal proceeding brought by MPA to recover such costs, the Owner shall be obligated to pay for the costs and expenses of such proceeding, including reasonable attorneys' fees.

VI. ENFORCEMENT.

A. Interpretation.

In case of uncertainty as to the meaning of any article, section, subsection, paragraph, sentence, clause, phrase or word of this Declaration the interpretation of MPA shall be final, conclusive and binding upon all interested parties.

B. Abatement and Suit.

Violation or breach of any restriction herein contained shall give to MPA and every Owner the right to enter the property upon or as to which said violation or breach exists and to summarily abate and remove at the expense of the Owner thereof, any structure, thing or condition that may be or exist thereon contrary to the intent and meaning of the provisions hereof, or to prosecute a proceeding at law or in equity against the person or persons who have violated or are attempting to violate any of these restrictions to enjoin or prevent them from doing so, to cause said violation to be remedied or to recover damages for said violation.

In any legal or equitable proceeding for the enforcement of this Declaration, the losing party or parties shall pay the attorneys' fees of the prevailing party or parties, in such amount as may be fixed by the court in such proceedings. All remedies provided herein or at law or in equity shall be cumulative and not exclusive.

C. Inspection.

MPA may from time to time at any reasonable hour or hours, enter and inspect any property subject to these restrictions to ascertain compliance therewith.

D. Failure to Enforce Not a Waiver of Rights.

Except as provided in the last paragraph of Article III hereof, the failure of MPA or any Owner to enforce any restriction contained herein shall in no event be deemed to be a waiver of the right to do so thereafter nor of the right to enforce any other restriction contained herein.

VII. EXTINGUISHMENT, CONTINUATION AND MODIFICATION.

This Declaration, every provision hereof and every covenant, condition and restriction contained herein shall continue in full force and effect for a period of forty (40) years from the date hereof, provided, however, that this Declaration, or any provision hereof, or any covenant, condition or restriction contained herein, may be terminated, extended, modified, or amended with the written consent of the Owners of sixty-five per cent (65%) of the land in Moffett Industrial Park No. 1 (exclusive of portions thereof now or hereafter dedicated to public use); provided, further, that so long as Moffett Park Associates owns at least twenty per cent (20%) of Moffett Industrial Park No. 1, no such termination, extension, modification or amendment shall be effective without the written consent of Moffett Park Associates. No such termination, extension, modification or amendment shall be effective until a proper instrument in writing has been executed and acknowledged and recorded in the Office of the Recorder of Santa Clara County, California.

VIII. MOFFETT INDUSTRIAL PARK NO. 1 OWNERS ASSOCIATION.

A. Membership.

Each Owner shall be a member of the Moffett Industrial Park No. 1 Owners Association, an unincorporated association (hereinafter called the "Association").

B. Transfer of Rights and Duties.

The rights and duties of MPA under this Declaration shall be transferred to and automatically assumed by the Association upon the earliest of the following to occur:

1. The sale of ninety per cent (90%) of Moffett Industrial Park No. 1 by Moffett Park Associates to Owners as evidenced by the official records of the Santa Clara County Recorder; or
2. The recordation by MPA of an appropriate instrument with the Santa Clara County Recorder transferring the rights and duties of MPA under this Declaration to the Association.

C. Organization.

The members of the Association may at any time meet and adopt by laws or rules of procedure to govern the operation of the Association. Until such by-laws or rules of procedure are adopted, meetings of the Association may be called by any member thereof upon seven (7) days' written notice to each member setting forth the time and place thereof, provided that notice may be waived in writing at any time by any member or members not so notified; twenty-five per cent (25%) of the members of the Association shall constitute a quorum; and the Association may act by a vote of a majority of its members present at a meeting, duly called, at which a quorum is present or without a meeting by unanimous written consent of its members.

IX. ASSIGNABILITY OF MOFFETT PARK ASSOCIATES RIGHTS AND DUTIES.

Any and all of the rights, powers and reservations of Moffett Park Associates herein contained may be assigned to any person, corporation or entity which assumes in writing the duties of Moffett Park Associates pertaining to the particular rights, powers and reservations assigned, and thereafter to the extent of such assignment, such person, corporation or entity shall have the same rights and powers and be subject to the same obligations and duties as are herein given to and assumed by Moffett Park Associates.

X. CONSTRUCTIVE NOTICE AND ACCEPTANCE.

Every Owner is and shall be conclusively deemed to have consented and agreed to every covenant, condition and restriction contained herein, whether or not any reference to this Declaration is contained in the instrument by which such Owner acquired an interest in any portion of Moffett Industrial Park No. 1.

IN WITNESS WHEREOF, Moffett Park Associates, the declarant herein, has caused its name to be hereunto subscribed as of the day and year first above written.

MOFFETT PARK ASSOCIATES,

By Atkinson Development Company,

By_____
Vice President

By_____
Assistant Secretary

By Outreader Construction Company,

By_____

By_____

By R. A. Tropper, Inc.,

By_____

By_____

VALLEY TITLE COMPANY

NOTICE OF COMPLETION

Must be filed within ten days after completion. Sec. 1187 C.C.P.

Individual or Corporation

NOTICE IS HEREBY GIVEN:

1. That the interest or estate stated in paragraph 4 below in the real property hereinafter described is owned by the following:

NAME — STREET AND NO. — CITY — STATE

ATARI, INC., 1265 Borregas Avenue, P.O. Box 9027, Sunnyvale, California 94086

(If more than one owner of the interest stated, the name and address of each must be inserted.)

2. That the real property herein referred to is situated in the City of Sunnyvale

County of Santa Clara State of California, and is described as follows:

360 Caribbean Drive, Sunnyvale, California 94086

3. That the full name and address of the owner of said interest or estate, if there is only one owner, and the full names and addresses of all the co-owners who own said interest or estate as joint tenants, as tenants in common or otherwise, if there is more than one owner, are set forth in the preceding paragraph.

4. That the nature of the title of said owner, or if more than one, then of said owner and co-owners is: ~~In Fee~~ LESSEE

(If other than fee, strike out "In Fee" and insert for example "purchaser" under contract of purchase or "lessee".)

5. That on 6/27/77 a work of improvement on the real property hereinafter described was completed.

6. That the name of the original contractor, if any, for such work of improvement was

ALACON GENERAL CONTRACTOR

(If no contractor for work of improvement as a whole, insert "No Contractor".)

Dated 6/30/77

Read this note before signing.

If more than one owner only one need sign personally or by an agent.
The owner or agent who signs the notice itself must also sign the verification below.
If owner is a corporation, in verification, state title of officer signing.

William L. White — Owner

By William L. White — Owner's Agent

SOLELY FOR RECORDER'S USE

STATE OF CALIFORNIA

County of Santa Clara } ss.

The undersigned being duly sworn, says: That he has read the foregoing notice and knows the contents thereof, and the same is true of his own knowledge.

ATARI, INC.

By: William L. White
William L. White

Subscribed and sworn to before me this 30th day of June 1977.

Notary Public in and Santa Clara

OFFICIAL SEAL
EVELYN F. SUMIDA
NOTARY PUBLIC - CALIFORNIA
SANTA CLARA COUNTY
My Commission Expires April 28, 1980

AFTER RECORDING MAIL TO

ATARI, INC.
1265 Borregas Avenue, P.O. Box 9027
Sunnyvale, California 94086

I have a copy

FIRST AMENDMENT TO LEASE

THIS FIRST AMENDMENT is entered into as of August 30, 1976, by and between THE PRUDENTIAL INSURANCE COMPANY OF AMERICA (hereinafter called "LESSOR"), and ATARI, INC. (hereinafter called "LESSEE").

RECITALS:

A. On the 10th day of May, 1976, LESSOR AND LESSEE entered into a lease of certain premises located at 452 Caribbean Drive, Sunnyvale, California 94086.

B. The existing leased space contains 54,000± square feet of warehouse facility.

C. LESSEE has previously paid LESSOR a security deposit of $8,910.00 and the first month rent of $8,910.00.

D. LESSEE now wishes to lease an additional 18,000 square feet of warehouse space, for a total of 72,000 square feet and to move existing lease to the certain premises located at 360 Caribbean Drive, Sunnyvale, California 94086 as shown on Exhibit A attached hereto and made a part hereof.

E. LESSEE now wishes LESSOR to provide additional interior improvements to the Premises as follows:
   a. Increase the flow in the overhead fire sprinkler system to .5 gallon per minute per 3,000 square feet;
   b. Provide drop fire sprinklers for storage racks in 35,000 square feet of the Premises with a flow of .29 gallons per minute per 2,000 square feet;
   c. Add 8 additional fire hose racks within the Premises.

   LESSOR hereby agrees to install said additional improvements.

F. The total area to be leased is 72,000 square feet commencing on October 1, 1976 and expiring on September 30, 1981, a period of five (5) years.

G. The base year for Common Area Maintenance cost shall be Calendar Year 1977. Estimated Common Area Maintenance Costs for the base year are Eight Thousand Six Hundred Forty and No/100 ($8,640.00) Dollars.

H. LESSOR and LESSEE do hereby undertake to amend the lease to reflect the above changes in premises to be leased, and the increased rent and security deposit which shall be payable as follows:

NOW THEREFORE, IT IS MUTUALLY AGREED:

1. The rent payable for the total area of 72,000 square feet is $13,392.00 per month commencing October 1, 1976. The additional rent now due is $4,482.00.

2. Upon execution of this First Amendment To Lease, LESSEE's security deposit to be increased by $4,482.00 making the total rent and security deposit now due $8,964.00.

IN WITNESS WHEREOF, the parties have executed this amendment as of the day and year first above written.

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By: Arch K. Jacobson
General Manager

ATARI, INC.

By: Joseph F. Keenan
President

ADDENDUM TO LEASE

This Addendum to Lease dated May 10, 1976, by and between THE PRUDENTIAL INSURANCE COMPANY OF AMERICA ("Landlord") and ATARI, INC. ("Tenant") is executed this 20th day of December, 1976, covering those certain premises described as:

360 Caribbean Drive (72,000) square feet)
Sunnyvale, California 94086

and is as follows:

Landlord and Tenant hereby waive all rights of subrogation which their respective insurers might have under all policies of insurance now existing or hereafter purchased during the term by either Landlord or Tenant, insuring or covering the premises or any portion thereof, or Tenant's leasehold improvements, furniture, fixtures, personal property, business, or operations in, or about the premises.

IN WITNESS WHEREOF this Addendum is executed the day and year set forth above.

ATARI, INC.

By Joseph F. Keane
President

By William L. Mitchell
Secretary

"Tenant"

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By Terry P. Hoyer
Terry P. Hoyer
Attorney At Law

By _____

"Landlord"

ADDENDUM NO. 2 to lease dated May 10, 1976, between The Prudential Insurance Company of America, Lessor and Atari, Inc., Lessee for properly commonly known as 360 Carribean Drive, Sunnyvale, Ca.

The following is added as paragraph XXXXII to the said lease:

RENEWAL OPTIONS

At the expiration of the original five (5) year term hereof, Lessee may extend this lease for two (2) additional renewal terms of five (5) years each, by giving Lessor written notice of Lessee's intention to do so at least one hundred eighty (180) days prior to the expiration of the then lease term of this lease. Such renewal terms shall be upon all of the terms and conditions hereof, except that the monthly rental for such renewal term shall be adjusted to reflect the percentage increase, if any, in the cost of living during the previous sixty (60) month period respectively (or the closest comparable period then available and mutually acceptable) as measured by the Consumer Price Index for all Items, San Francisco-Oakland Bay Area, published by the United States Department of Labor, Bureau of Labor Statistics. In the event the index specified above is either unavailable or is no longer published, the most comprehensive official index then published by the United States Department of Labor, Bureau of Labor Statistics which most closely approximates the index specified, shall be substituted in place thereof.

In no event shall the rental paid during the renewal period be less than the rental paid during the previous lease term herein, nor increased by more than twenty (20%) percent, for each successive five (5) year option period.

This Addendum is dated at Sunnyvale, California, this 12th day of May, 1977.

ATARI, INC.

By _____
President
"Lessee"

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By _____
L. R. CASHION
INVESTMENT MANAGER, REI
~~Vice President~~
"Lessor"

AMENDMENT THREE TO LEASE

THIS AGREEMENT, executed at Sunnyvale, California, by and between THE PRUDENTIAL INSURANCE COMPANY OF AMERICA, a New Jersey corporation (hereinafter "Landlord"), and ATARI, INC., a Delaware corporation (hereinafter "Tenant"), for the Premises located at 360 Caribbean Drive, Sunnyvale, California, is entered into this 12th day of May, 1981.

Initial

RECITALS

WHEREAS, Landlord by Lease, dated May 10, 1976, did lease to Tenant a 54,000 square foot portion of a 72,000 square foot building at 360 Caribbean Drive, Sunnyvale, California; and

WHEREAS, the term of said Lease commenced October 1, 1976, to terminate September 30, 1979, at a rental of Eight Thousand Nine Hundred Ten and No/100 ($8,910.00) Dollars per month; and

WHEREAS, Amendment One to Lease, dated August 30, 1976, did lease to Tenant an additional 18,000 square feet, making a total of 72,000 square feet, effective October 1, 1976, and terminating September 30, 1981, increasing the rent to Thirteen Thousand Three Hundred Ninety-two and No/100 ($13,392.00) Dollars per month; and

WHEREAS, Addendum Two to Lease, dated May 10, 1976, did give to Tenant two (2) renewal option terms of five (5) years each.

WHEREAS, Tenant desires to exercise its first renewal option for an additional five (5) years as stated in Addendum Two to the above referenced Lease.

NOW, THEREFORE, IT IS MUTUALLY AGREED:

1. The termination date of the Lease shall be extended from September 30, 1981 to September 30, 1986.

2. The rental for the Premises, commencing October 1, 1981, shall be increased from Thirteen Thousand Three Hundred Ninety-two ($13,392.00) Dollars per month to Sixteen Thousand Seventy and 40/100 ($16,070.40) Dollars per month.

3. All other terms and conditions of the Lease shall remain in full force and effect.

4. IN WITNESS HEREOF, the parties herein have executed this Lease Amendment Three as of the date hereinabove.

TENANT: ATARI, INC.

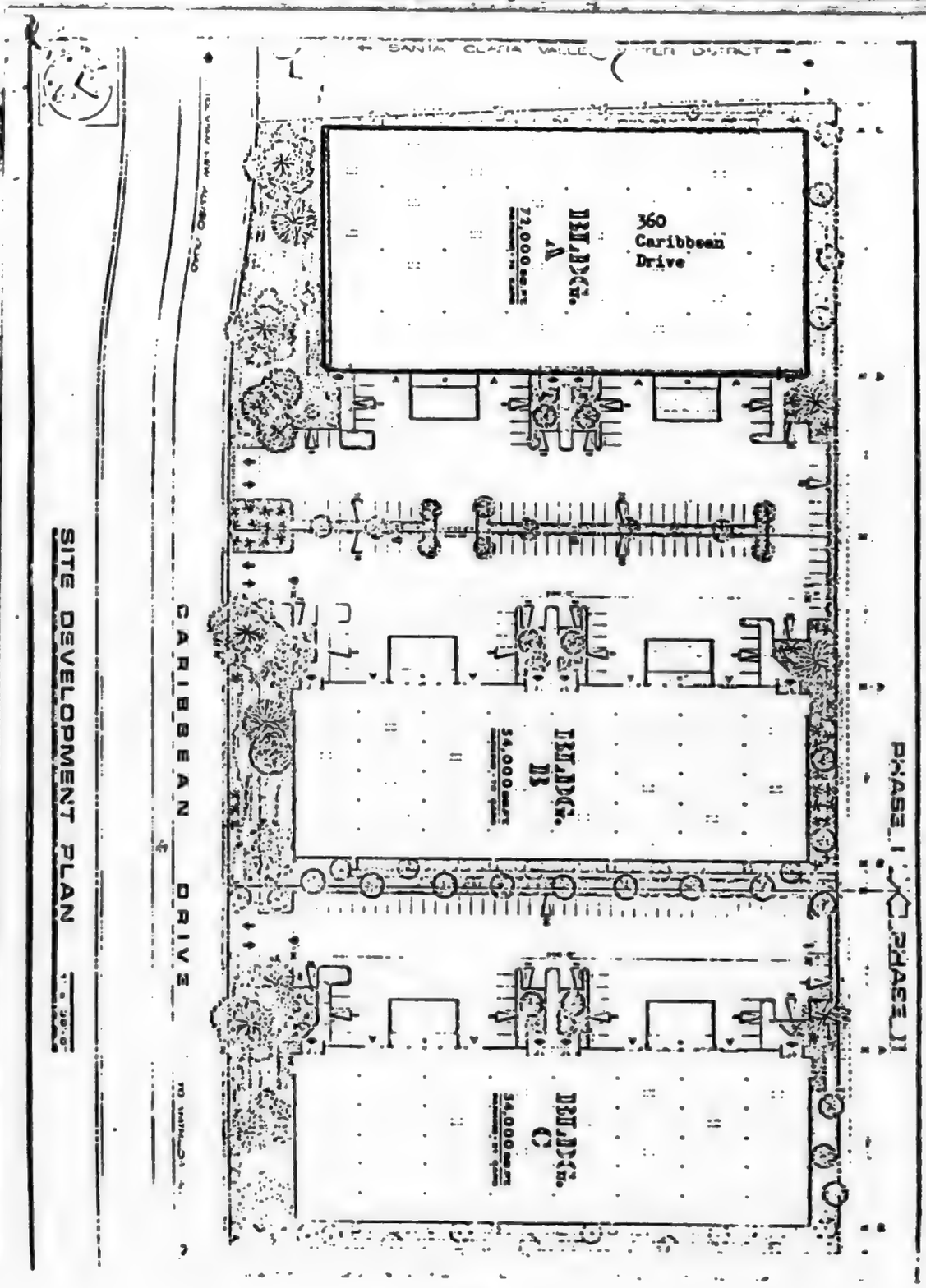
By: _____
David M. Bellin

Title: Director of Corporate Administration

LANDLORD: THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By: _____
Lee Cashion

Title: General Manager, R.E.O.



PREMISES

360 Caribbean Drive, Sunnyvale, California 94086. A 72,000 ± sq. ft. building warehouse facility for Atari, Inc.

EXHIBIT A

INITIALS

Exhibit 10.9

Moffett Park

INDUSTRIAL LEASE AGREEMENT

between

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

and

ATARI, INC.
390 CARIBBEAN DRIVE
SUNNYVALE, CALIFORNIA 94086

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INDUSTRIAL LEASE

I **PARTIES**

THIS LEASE made, for reference purposes only, this 17th day of December, 1976, by and between THE PRUDENTIAL INSURANCE COMPANY OF AMERICA, a New Jersey corporation having its principal place of business at No. 763 Broad Street, Newark, New Jersey, hereinafter referred to as "LESSOR", and Atari, Inc., a Delaware Corporation having its principal place of business at 1265 Borregas Avenue, Sunnyvale, California, hereinafter referred to as "LESSEE".

WITNESSETH

II **PREMISES**

That LESSOR does demise and lease unto LESSEE and LESSEE does hereby take and hire upon and subject to the terms, covenants and conditions herein contained, the following described PREMISES, situated in the City of Sunnyvale, County of Santa Clara, State of California, which are more particularly shown and set forth in Exhibit "A" attached hereto and by reference made a part hereof.

PLEASE INITIAL

III **USE OF PREMISES**

LESSEE may use and occupy the PREMISES for [redacted] warehouse uses subject to Municipal Zoning Ordinances of the City of Sunnyvale, and for no other purpose.

IV **TERM**

The term of this Lease shall be for a period of five (5) years, commencing on the 1st day of April, 1977, and ending on the 31st day of March, 1982.

V **RENTAL**

LESSEE shall pay to LESSOR, in advance without deduction or offset, on the first day of each month of the term hereof, rental for the PREMISES in installments as follows:

$15,738.00 upon execution of this lease, said monies to be applied as first month's rental payment;

$15,738.00 on the first day of each and every month in advance commencing May 1, 1977, for the remaining term of this lease.

Rental for any period during the term hereof which is for less than one month shall be a pro rata portion of the monthly installment. Rental shall be payable without notice or demand at the address stated herein or to such persons or at such places as LESSOR may designate in writing.

All rents shall be paid to LESSOR at: 555 California Street, Suite 2400, San Francisco, California 94104
Attention: Property Department

VI **LATE PAYMENT CHARGES**

It is agreed that the LESSEE shall be responsible for and shall pay the LESSOR interest on all sums not paid within five (5) days from the due date thereof at ten (10) percent per annum or the maximum rate allowed by law, whichever is greater, from the due date to and including the date of payment, provided, however, that LESSOR give LESSEE prior written notice of said non-payment.

VII **SECURITY DEPOSIT**

As consideration for the full and faithful performance by LESSEE of the term and covenants of this Lease, LESSEE has paid unto LESSOR the sum of FIFTEEN THOUSAND SEVEN HUNDRED THIRTY-EIGHT AND NO/100 ($15,738.00)

DOLLARS the receipt of which is hereby acknowledged.

LESSOR shall have the right to appropriate and apply any portion of the security deposit as may be reasonably necessary to: (a) remedy a default in rent; (b) repair damage caused to the PREMISES by LESSEE; (c) remedy any other covenants or conditions to be performed by LESSEE, that have been breached by LESSEE.

Any remaining portion of the security deposit, after any deductions, shall be returned to the LESSEE within one month after termination of its tenancy, directed to LESSEE at the address left by LESSEE for the forwarding correspondence. LESSEE will be entitled to no interest on any portion of such deposit.

PLEASE INITIAL

VIII **POSSESSION** due to delays in construction of normal tenant improvements

If LESSOR, for any reason whatsoever, cannot deliver possession of the said PREMISES to LESSEE at the commencement of the said term as hereinbefore specified, this Lease shall not be void or voidable, [redacted] on or after June 1, 1977 at LESSEE's option. See Article XXXXIII herein.

ACCEPTANCE OF PREMISES

By entry hereunder, LESSEE accepts the PREMISES as being in good and sanitary order, condition, and repair and accepts the building and improvements on the demised PREMISES in their present condition and without any representation of warranty by the LESSOR as to condition of said building or as to the use or occupancy which may be made thereof, providing the buildings and improvements comply with all applicable codes and ordinances. Any exceptions to the foregoing must be by written agreement executed by LESSOR and LESSEE. LESSOR agrees that LESSEE should have the benefit of all warrantien provided to LESSOR by its contractors and materialmen.

PLEASE INITIAL

IX **TENANT IMPROVEMENTS**

It is agreed and understood that LESSOR will have full discretion as to the construction details of the Tenant Improvements to be constructed. It is agreed, however, that LESSOR shall not [redacted] deviate from the building plan, Exhibit "B", without LESSEE'S written consent, which shall not be unreasonably withheld.

LESSEE shall be permitted to install any additional interior improvements not the responsibility of LESSOR hereunder coordinately with LESSOR'S installation of Tenant Improvements on Exhibit "B". If LESSEE delays LESSOR'S completion of said improvements on Exhibit "B", the Lease shall commence on the same date on which it would have commenced had no delays been caused by LESSEE.

XI **HOLDING OVER**

Any holding over after the expiration of the term with the consent of the LESSOR, shall be construed to be a tenancy from month to month, at a rental of TWENTY THOUSAND FOUR HUNDRED FIFTY-NINE AND NO/100 ($ 20,459.00)

DOLLARS a month, and shall otherwise be on the terms and conditions herein specified, so far as applicable.

PLEASE INITIAL

XII **USES PROHIBITED AND WASTE**

LESSEE shall not commit, or suffer to be committed, any waste upon the PREMISES, [redacted] or allow any sale by auction upon the PREMISES, or allow the PREMISES to be used for any improper, immoral, unlawful or objectionable purpose, or place any loads upon the floor, walls, or ceiling in excess of the maximum designed loads or which endanger the structure, or

place any harmful liquids in the ... ge system of the building unless LESSEE installs ... neutralizers. No waste materials or refuse shall be dumped upon or permitted to remain upon any part of the leased PREMISES outside of the building proper, except in the enclosed trash area provided. No materials, supplies, equipment, products, or articles of any nature shall be stored upon or permitted to remain on any part of the leased PREMISES outside of the building proper. LESSEE is entitled to store such materials, supplies, tanks, and other equipment in the areas specifically shown on Exhibit "A", which shall be properly and attractively screened.

XIII **SIGNS**

LESSOR has reserved the exclusive right to the exterior walls and roof of the PREMISES, and LESSEE shall not place, nor permit to be placed, upon the exterior walls, roof, or on any portion of the leased Premises, any signs, advertisements or notices whatsoever. LESSOR shall install, as part of the Tenant Improvements, a standard sign to be used for all tenants in The Prudential Office-Research Center, which shall be conspicuously displayed near the entrance of the Premises and which will adequately identify the LESSEE'S company name.

XIV **BUILDING MAINTENANCE**

Subject to the provisions of Article XXI, and except for damage caused by any negligent or intentional act or omission of LESSEE, LESSEE'S agents, employees, or invitees, LESSOR, at LESSOR'S expense, shall keep in good order, condition and repair the foundations, exterior walls and the exterior roof of the PREMISES. LESSOR shall not, however, be obligated to maintain the interior surface of the exterior walls, windows, doors or plate glass. LESSOR shall have no obligation to make repairs under this Article XIV until a reasonable time after receipt of written notice of need for such repairs. XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX.

LESSEE, subject to the provisions of this Article XIV and Article XXI, at LESSEE'S expense, except for warranteed items shall keep in good order, condition and repair the PREMISES and every part thereof XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXX, including without limiting the generality of the foregoing, all plumbing, heating, ventilating and air conditioning; electrical equipment and lighting fixtures; interior walls, ceilings, windows, doors and plate glass located within the PREMISES. LESSEE shall obtain a monthly heating, ventilating and air conditioning preventive maintenance contract, reasonably approved by LESSOR and paid for by LESSEE, including without limitation replacement of filters, oiling and lubricating of machinery and parts, replacement and/or adjustment of drive belts, oil changes and other preventive maintenance.

If LESSEE fails to perform LESSEE'S obligations under this Article, LESSOR may, at LESSOR'S option: (a) enter upon the PREMISES after ten (10) days prior written notice to LESSEE, and put the same in good order, condition and repair, and the cost thereof together with interest thereon at the rate of ten (10) per cent per annum or the maximum rate allowed by law, whichever is greater, shall be due and payable as additional rent to LESSOR together with LESSEE'S next rental installment; or (b) exercise any and all remedies available to LESSOR pursuant to Paragraph XXIII herein.

XV **COMMON AREAS MAINTENANCE**

For the purpose of this Lease, the term "Common Areas" means all areas and facilities XXXXX ___ as set forth in Exhibit "A", provided and designated by LESSOR for the common use and benefit of the LESSEE and other occupants XXXXXXXXXXXXXXXXXXXX and their respective customers, employees and invitees. The Common Areas shall include, but are not limited to: landscaped areas, walkways, roadways, parking and service areas. LESSOR shall at all times have exclusive control of the Common Areas and may at any time temporarily close any part thereof; exclude and restrain anyone from any part thereof, except bona fide customers, employees and invitees of the LESSEES XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXX engage others to operate and maintain all or any part on such terms and conditions as LESSOR shall, in its sole judgment, deem reasonable and proper and make such changes as in its opinion are in the best interest of the Premises XXXXXXX The surface parking facilities shall be available for the automobiles of the LESSEE XXXXXXXXXXXXXXXXXXXXXX and its XXX respective customers, employees and invitees on a non-assigned, non-exclusive basis.

LESSOR shall keep and maintain the Common Areas in good order, condition and repair. The cost of maintaining these areas shall be paid for by LESSOR and shall be computed on an accrual basis, under generally accepted accounting principles. These costs shall include, without limitation, the cost of labor, materials, supplies and services used or consumed in operating and maintaining the Common Areas, to wit:

(1) Landscaping maintenance and replacement;
(2) Cleaning and repairing concrete walkways;
(3) Sweeping and repairing paved parking areas;
(4) Operating and maintaining the parking and landscaping pole lighting;
(5) Maintaining all directional and security signs;
(6) Furnishing water (including sewer rental charge) for all buildings and landscaping;
(7) Pest control service;
(8) Rental or depreciation on maintenance and operating machinery.

The base year for Common Area maintenance costs shall be Calendar Year 19 77. Estimated Common Area maintenance costs for the base year are EIGHT THOUSAND SIX HUNDRED AND NO/100--------------- ($ 8,600.00-----) Dollars.

Beginning on the first day of January, 19 77 and on each succeeding year of the Lease, LESSEE shall pay LESSOR, as additional rental, an amount equal to ONE HUNDRED (100 %) per cent of the LESSOR'S total estimated increase in such Common Area maintenance costs, over the base year, such increases shall be payable in monthly installments when rent is due. Common Area maintenance costs shall not include any costs (other than the cost of water and sewer rental) attributable to the operation of maintenance of the Pavilion Cafeteria, which shall be the sole expense of the LESSOR. LESSOR'S estimate of annual Common Area maintenance costs shall be adjusted to the actual annual cost each year. In the event this Lease or any extension hereof shall expire on a date earlier than the end of a Calendar Year, LESSOR shall prepare a statement of actual Common Area maintenance costs to the date of the Lease expiration. Any underpayment shall be payable or any overpayment refundable between the parties within ten (10) days of LESSOR'S notice of final accounting for such year or partial Calendar Year.

XVI **UTILITIES AND SERVICES**

LESSEE shall pay the cost of all gas, electricity, telephone and janitorial services rendered at the PREMISES. LESSEE shall also pay the cost of garbage container rental and pickup from the garbage disposal area shown on Exhibit "A".

XVII **TAXES AND ASSESSMENTS**

LESSEE shall pay before delinquency any and all taxes, assessments, license fees and public charges levied, assessed or imposed and which become payable during the term of this Lease upon LESSEE'S fixtures, equipment, furniture, furnishings and other personal property installed or located on the PREMISES, or upon LESSEE'S business operation at the PREMISES.

In the event that in any tax year during the term of this Lease the amount of real estate taxes or special assessments shall exceed the amount of such taxes or assessments for the Fiscal Year 19 76-19 77, LESSEE shall pay LESSOR as additional rent, an amount equal to the total increase upon the PREMISES as shown on Exhibit "A", and an amount equal to ~~Sixteen~~ One hundred (~~16~~ 100 %) per cent of the total increase on the land area and site improvements XXXXXXXXXX, as shown on Exhibit "A" hereto. LESSOR shall calculate any tax increase from the valuations assigned by the assessor, whether such increase is caused by increased or added rate or increased assessed valuation or both or by increase in, or by reason of any new, general or special assessment. The amount of LESSEE'S obligation under this Article XVII shall be prorated for any partial tax year.

If in any tax year a tax or excise on rents or other tax, however described, is levied or assessed against LESSOR on account of the rents reserved hereunder, as a substitute in whole or in part for real estate taxes levied or assessed XXXXXXXXXX such tax or excise on rents or other tax shall be deemed to constitute real estate taxes XXXXXXXXX for the purpose of this Article XVII. Any payments due under the terms of this Article XVII are payable within ten (10) days of LESSOR'S written notice to LESSEE.

XVIII **INSURANCE**

LESSEE shall not use, or permit said PREMISES, or any part thereof, to be used, for any purpose other than that for which the said PREMISES are hereby leased, and no use shall be made or permitted to be made of the said PREMISES, nor acts done, which will cause a cancellation of any insurance policy covering said building, or any part thereof, nor shall LESSEE sell or permit to be kept, used or sold, in or about said PREMISES, any article which may be prohibited by the standard form of fire insurance policies. LESSEE shall, at it's sole cost and expense, comply with any and all requirements, pertaining to said PREMISES, of any insurance organization or company necessary for the maintenance of reasonable fire and public liability insurance, covering said building and appurtenance. The LESSOR agrees to purchase at a competitive rate and keep in force fire and extended coverage insurance covering the leased PREMISES in amounts not to exceed the actual insurable value of said PREMISES. LESSEE agrees that if the rates for fire and extended coverage insurance are increased after occupancy over the existing rates for such insurance upon the building in which said PREMISES are located or are increased due to the nature of the LESSEE'S business, or higher amounts as may be necessary due to the increase value of the PREMISES, the LESSEE will pay, within ten (10) days of LESSOR'S notice to LESSEE, the pro rata amount of the premium increases from any or all of the above causes. LESSEE shall, at its own expense maintain adequate fire insurance and extended coverage upon its trade fixtures, equipment,

LESSEE shall not be liable to LESSOR for the premises for any earthquake or flood insurance which may be carried by LESSOR.

XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX LESSEE shall also, at LESSEE'S sole cost and expense, for the mutual benefit of LESSOR and LESSEE, maintain: (a) general public liability insurance against claims for bodily injury, death or property damage occurring upon, in or about the leased PREMISES including common areas, or arising from the business or occupancy thereof, such insurance to afford protection to the limit of not less than Five Hundred Thousand and No/100 ($500,000.00) Dollars in respect to injury or death of a single person, and to the limit of not less than One Million and No/100 ($1,000,000.00) Dollars in respect to any one (1) accident and to the limit of not less than One Hundred Thousand and No/100 ($100,000.00) Dollars in respect to property damage, insuring the LESSEE and naming LESSOR as an additional insured; and (b) steam boiler insurance on all steam boilers, pressure boilers, or other such apparatus in such amount or amounts as LESSOR may from time to time reasonably require.

All policies of insurance shall be written by companies satisfactory to LESSOR and authorized to do business in California, and shall be written in such form and shall be distributed by such companies as shall be reasonably acceptable to LESSOR. Certificates evidencing insurance coverage required hereunder shall be furnished to LESSOR upon commencement of the lease term and shall provide at least ten (10) days written notice to LESSOR prior to the cancellation of or material change in such insurance.

XIX ALTERATIONS AND ADDITIONS

LESSEE shall not make nor permit any alterations, additions, or improvements to the leased PREMISES without prior written consent of LESSOR, which consent shall not be unreasonably withheld. In the event LESSOR consents to the proposed alterations, additions or improvements, the same shall be at LESSEE'S expense, and LESSEE shall hold LESSOR harmless therefor. XXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXX If required by LESSOR in writing, as a condition to LESSOR'S consent, such alterations shall be removed by LESSEE upon the termination or sooner expiration of the term of this Lease and LESSEE shall repair damage to the PREMISES caused by such removal, all at LESSEE'S expense.

INITIAL

LESSEE shall give LESSOR at least (20) days prior written notice of the date of commencement of any construction in or upon the PREMISES, and LESSOR shall have the right at all times to post Notices of Nonresponsibility on the PREMISES in connection therewith. LESSEE hereby indemnifies and agrees to hold LESSOR free and harmless from all liens and claims of lien, and all other liability claims and demands arising out of any work done or materials supplied to the PREMISES by or at the request of the LESSEE, its agents, employees, or contractors.

XX ASSIGNMENT AND SUBLETTING

LESSEE shall not assign this Lease or sublet the PREMISES, either in whole or in part, nor mortgage or otherwise hypothecate the leasehold interest of LESSEE, or any part or parts thereof without first obtaining in each and every instance, LESSOR'S written consent, which consent shall not be unreasonably withheld; provided, however, that LESSEE may, without obtaining LESSOR'S consent, (a) assign or transfer this Lease to any successor corporation, provided all or a majority of the assets of the LESSEE are transferred to the successor corporation and such successor assumes LESSEE'S obligations hereunder, or (b) sublet the PREMISES to any wholly owned subsidiary of LESSEE, or parent of LESSEE or related corporation

XXI DAMAGE TO OR DESTRUCTION OF PREMISES

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In the event of a partial destruction of the PREMISES during the term herein from any cause, LESSOR shall forthwith repair the same, provided such repairs can be made within ninety (90) days, but such partial destruction shall in no way annul or void this Lease, except that LESSEE shall be entitled to a proportionate deduction of rent while such repairs are being made, such proportionate deduction to be based upon the extent to which the making of such repairs shall interfere with the business carried on by LESSEE in the said PREMISES. If such repairs cannot be made in ninety (90) days, LESSOR XXXXXXXXXXX make same within a reasonable time, this Lease continuing in full force and effect and the rent to be proportionately reduced as provided herein. In the event that LESSOR does not so elect to make such repairs which cannot be made in ninety (90) days, or such repairs cannot be made under existing laws and regulations, this Lease may be terminated at the option of either party. In respect to any partial destruction which LESSOR is obligated to repair or may elect to repair under the terms of this Article XXI, the provisions of Section 1932, Subdivision 2, and of Section 1933, Subdivision 4, of the Civil Code of the State of California are waived by LESSEE. In the event that the building in which the demised PREMISES may be situated be destroyed to the extent of not less than thirty-three and one-third (33 1/3%) per cent of the replacement cost thereof, LESSOR may elect to terminate this Lease, whether the demised PREMISES be injured or not. A total destruction of the building in which the said PREMISES may be situated shall terminate this Lease.

XXII CONDEMNATION

If the whole or any part of the PREMISES shall be taken or condemned by any competent authority for any public or quasipublic use or purpose, which taking or condemnation shall render the PREMISES unfit for the use which LESSEE was utilizing the PREMISES immediately prior to the taking or condemnation, then this Lease and any extension hereof shall terminate on the date when the possession of the part so taken shall be acquired for such use or purpose, and the rental payments made or required to be made under this Lease by LESSEE shall be abated and prorated as of the date of possession by the condemnor arising from such taking. In the event a part of the PREMISES shall be so taken or condemned and shall not result in the termination of the Lease as hereinabove provided, then this Lease shall terminate as to that portion of the PREMISES taken and the rental payments made or required to be made under this Lease as to the portion of the PREMISES taken shall be abated and prorated as of the date of possession by the condemnor. This Lease shall continue in full force and effect as to that portion of the PREMISES not so taken.

INITIAL

LESSOR and LESSEE shall be entitled to receive the proceeds of all such condemnation awards XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX as their respective interests shall appear.

XXIII DEFAULT

If: (a) LESSEE shall fail to pay any rent or other sum payable hereunder for a period of ten (10) days after the same is due; (b) LESSEE shall fail to observe, keep or perform any of the other terms, covenants, agreements or conditions contained herein and on the part of LESSEE to be observed or performed and such default continues for a period of thirty (30) days after written notice by LESSOR or beyond the time reasonably necessary for cure if such default is of a nature to require more than thirty (30) days to remedy; (c) LESSEE shall become bankrupt or insolvent or make a transfer in fraud of creditors, or make an assignment for the benefit of creditors, or take or have taken against LESSEE any proceedings of any kind under any provision of the Federal Bankruptcy Act or under any other insolvency, bankruptcy or reorganization act and in the event any such proceedings are involuntary, LESSEE is not discharged from the same within sixty (60) days thereafter; (d) a receiver is appointed for a substantial part of the assets of LESSEE XXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX (f) this Lease or any estate of LESSEE hereunder shall be levied upon any attachment or execution; then any such event shall constitute an event of default by LESSEE. Upon the occurrence of any event of default by LESSEE hereunder, LESSOR may, at its option and without any further notice or demand, in addition to any other rights and remedies given hereunder or by law, do any of the following:

(i) LESSOR shall have the right, so long as such default continues, to terminate this Lease by giving to LESSEE written notice of such termination.

(ii) In the event of any such termination of this Lease, LESSOR may then or at any time thereafter, re-enter the PREMISES and remove therefrom all persons and property and again repossess and enjoy the PREMISES without prejudice to any other remedies that LESSOR may have by reason of LESSEE'S default or of such termination.

(iii) In the event of any such termination of this Lease, and in addition to any other rights and remedies LESSOR may have, LESSOR shall have all the rights and remedies of a Landlord provided by Section 1951.2 of the California Civil Code. The amount of damages which LESSOR may recover in event of such termination shall include, without limitation: (a) the worth at the time of award (computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one (1) per cent) of the amount by which the unpaid rent for balance of the term after the time of award exceeds the amount of rental loss that LESSEE proves could be reasonably avoided; (b) any legal expenses and other costs incurred by LESSOR in effecting re-entry or repossession of the PREMISES; (c) all costs incurred by LESSOR in restoring the PREMISES to good order and condition, or in remodeling, renovating or otherwise preparing the PREMISES for reletting; and (d) all costs including, without limitation, any brokerage commissions, incurred by LESSOR in reletting the PREMISES.

(iv) In the event LESSEE breaches this Lease XXXXXXXXXXXXXXXXX and LESSOR does not elect to terminate this Lease by reason of such breach XXXXXXXXXX this Lease shall continue in full force and effect, and in addition to any other rights and remedies LESSOR may have, LESSOR shall have all of the rights and remedies of a Landlord provided by Section 1951.4 of the California Civil Code, including the right to recover rent as its falls due. Without any obligation to do so, LESSOR may also relet the PREMISES as the agent of LESSEE and for LESSEE'S account for such term, which may extend beyond the term of this Lease, and upon such other terms and conditions as LESSOR may deem appropriate. LESSOR may do all things reasonably necessary for such reletting, including repair, remodeling and renovating of the PREMISES and LESSEE shall reimburse LESSOR on demand for all costs incurred by LESSOR in connection therewith. In the event LESSOR relets the PREMISES, LESSOR shall apply any sums received upon such reletting in the following order of priority: (a) to the payment of any indebtedness other than rent due hereunder from LESSEE to LESSOR; (b) to the payment of all costs incurred by LESSOR in restoring the PREMISES to good order and repair, or in remodeling, renovating or otherwise preparing the PREMISES for reletting; (c) to the payment of all costs (including, without limitation, any brokerage commissions) incurred by LESSOR in reletting the PREMISES; (d) to the payment of rent due and unpaid hereunder; (e) the balance, if any, to the payment of future rent as the same may become due hereunder. Notwithstanding any determination by LESSOR not to elect to terminate this Lease, LESSOR may at any time elect to terminate this Lease for any previous breach or default hereunder by LESSEE which remains uncured or for any subsequent breach or default.

(v) For the purpose of determining the unpaid rent for the balance of the term in the event of a termination of this Lease, or the rent due hereunder in the event of a relatting of the PREMISES, the monthly rent reserved in this Lease shall be deemed to be the sum of the following: (a) the minimum rent; (b) the amounts last payable by LESSEE pursuant to the property tax paragraph above, prorated on the base of a thirty (30) day month; and (c) the amounts payable by LESSEE pursuant to Paragraph XIV and XV.
(vi) After terminating this Lease, LESSOR may remove any and all personal property located in the PREMISES and place such property in a public or private warehouse or elsewhere at the sole cost and expense of LESSEE.

XXIV WAIVER

No waiver of any breach or breaches of any provision, covenant, or condition of this Lease shall be construed to be a waiver of any preceding or succeeding breach of such provision, covenant or condition, or any other provision, covenant or condition.

XXV TIME

Time is of the essence of each and every provision, covenant and condition herein contained and on the part of either LESSEE or LESSOR to be done and performed.

XXVI LITIGATION

In the event any action shall be brought by either party hereto against the other regarding terms and conditions of this Lease, the prevailing party shall recover a reasonable sum as attorney's fees and costs.

XXVII RIGHT OF ENTRY

LESSOR, or its agents, may at any reasonable time during business hours enter in and upon the PREMISES to make repairs, post notices, or inspect said PREMISES, and LESSOR may enter the PREMISES during business hours to show the PREMISES to prospective tenants within one hundred twenty (120) days prior to termination. The above rights are subject to such security regulations as may be imposed by the United States Government or any agency thereof and to LESSEE'S own reasonable security regulations.

PLEASE INITIAL

XXVIII QUIET ENJOYMENT

LESSOR covenants and agrees that LESSEE, upon performing the covenants, agreements and conditions of this Lease to be kept and performed by LESSEE, shall lawfully and quietly hold, occupy and enjoy said demised PREMISES during the term of this Lease, without hindrance or molestation by LESSOR, or any person or persons claiming under LESSOR.

XXIX HOLD HARMLESS

Except as in this Lease otherwise provided, LESSEE hereby agrees to indemnify and hold harmless LESSOR from all claims and liability arising out of the use of the PREMISES during the term hereof, except for any claim or liability resulting from the failure or neglect of LESSOR to perform in accordance with the provisions hereof or resulting from the acts or ommissions of LESSOR, its agents or employees.

PLEASE INITIAL

XXX SUBORDINATION INSERT 1

XXXI ESTOPPEL CERTIFICATE

LESSEE shall, at any time and from time to time upon not less than ten (10) days' prior request by LESSOR, execute, acknowledge and deliver to LESSOR a statement in writing certifying that: (a) this Lease is unmodified and in full force and effect (or if there have been modifications that the same is in full force and effect as modified and identifying the modifications); (b) the dates to which the Basic Rent and other charges have been paid; and (c) so far as the person making the certificate knows, LESSOR is not in default under any provisions of this Lease. It is intended that any such statement may be relied upon by any person proposing to acquire LESSOR'S interest in this Lease or any prospective mortgagee of, or assignee of any mortgage upon, such interest.

XXXII REGULATORY COMPLIANCE

LESSOR agrees that in the event any properly constituted authority having jurisdiction requires with or without a specific order against LESSOR or LESSEE that alterations or repairs be made to the PREMISES in order for said PREMISES to comply with any Federal, State or local law or regulation, building code or ordinance, LESSOR shall promptly and at his expense make such alterations or repairs; provided, that if such alterations or repairs are required solely by reason of a change in the use of the PREMISES from those contemplated as of this date or if such alterations or repairs are necessitated by additions or modifications made by LESSEE, the cost of all such alterations or repairs shall be borne by LESSEE.

LESSEE agrees to pay as additional rent to LESSOR, upon demand, its pro rata share of any parking charges, utilities surcharges, or any other costs levied, assessed or imposed by, or at the direction of, or resulting from statutes or regulations, or interpretations thereof, promulgated by any Federal, State, Municipal or local Governmental authority in connection with the use or occupancy of the leased PREMISES or the parking facilities serving the leased PREMISES.

XXXIII SURRENDER OF PREMISES LESSOR's negligence, willful misconduct, and damage caused by faulty construction and structural defects.

LESSEE, at the expiration of this Lease, shall deliver up the leased PREMISES in good condition and repair (damage by acts of God, fire, and normal wear and tear excepted), with all interior walls painted or cleaned, the air conditioning and heating equipment serviced by a reputable servicemen, and with all floors cleaned or waxed, together with alterations, additions and improvements which may have been made in, to, or on the PREMISES (except movable trade fixtures put in at the expense of LESSEE) [illegible] LESSEE'S sole [illegible], LESSEE shall in no event be required to restore any part or portion of the PREMISES whereon the additions and improvements were made with the written consent of LESSOR, unless at the time said written consent was given LESSOR and LESSEE agreed in writing that LESSOR would have the right to demand restoration of that part or portion of the PREMISES upon which the additions or improvements in question were made. LESSEE on or before the end of the term or sooner termination of this Lease, shall remove all of LESSEE'S personal property and trade fixtures from the PREMISES. If the PREMISES be not surrendered at the end of the term or sooner termination of this Lease, LESSEE shall indemnify LESSOR against loss or liability resulting from delay by LESSEE in so surrendering the PREMISES including, without limitation, any claims made by any succeeding LESSEE founded on such delay.

PLEASE INITIAL

XXXIV INTERPRETATION

This Lease shall be construed according to the laws of the State of California, [illegible] Wherever the context so requires, words used herein in the masculine gender shall be deemed to include the feminine and neuter, and the words used herein in the singular shall be deemed to include the plural.

PLEASE INITIAL

BINDING EFFECT

This Lease shall bind and inure to the benefit of the parties hereto and their respective heirs, representatives, successors or assigns (provided that this Lease shall not inure to the benefit of any assignee pursuant to an assignment which is not in compliance with the terms of this Lease relating to assignment and subletting).

XXXVI COVENANTS, CONDITIONS AND RESTRICTIONS

LESSEE acknowledges that it has read and understood the Covenants, Conditions and Restrictions of MOFFETT PARK, herein attached as Exhibit "C", and will abide by the provisions thereof as they apply to the use and occupancy of the PREMISES.

XXXVII NOTICES

All notices to be given or served hereunder, whether pursuant to the terms of this Lease or any provision of law, shall be given or served in writing either in person or by United States registered mail, postage prepaid, at the address stated herein or to such persons or at such places as LESSOR or LESSEE may designate in writing.

TO LESSOR AT: 155 Moffett Park Drive, Building A - Suite 101, Sunnyvale, CA. 94086

TO LESSEE AT: Atari, Inc.
1265 Borregas Avenue
Sunnyvale, California 94086

w/copy to Hopkins Carley
101 Park Center Plaza
San Jose, California 95113

XXXVIII ENTIRE AGREEMENT

This Lease is the entire agreement between the parties and there are no agreements or representations between the parties except as expressed herein.

XXXIX SUBROGATION

LESSOR and LESSEE hereby waive all rights of subrogation which their respective insurers might have under all policies of insurance now existing or hereafter purchased during the term by either LESSOR or LESSEE, insuring or covering the premises or any portion thereof, or LESSEE's leasehold improvements, furniture, fixtures, personal property, business, or operations in, or about the premises.

XXXX OTHER TERMS AND CONDITIONS

The addendum attached hereto containing Articles XXXXI through XXXXIII is a part of this lease and incorporated herein by reference.

INSERT 1

LESSEE shall, subject to the conditions set forth below, at the request of LESSOR, cause its interest to become subordinate to any mortgage, deed of trust or other instrument of security which has been or shall be placed on the land and building or land or building of which the PREMISES form a part. The LESSEE shall, at any time hereinafter, on demand, execute any instruments, releases, or other documents that may be required by any mortgagee, mortgagor, or trustor or beneficiary under any deed of trust for the purpose of subjecting and subordinating this Lease to the lien of any such mortgage, deed of trust or other instrument of security, and the failure of the LESSEE to execute any such instruments, releases or documents, shall constitute a default hereunder. LESSEE's subordination is subject to any such lender or prospective lender recognizing the validity of this lease according to its terms.

IN WITNESS WHEREOF, LESSOR and LESSEE have executed this Lease as of the day and year first above written.

LESSOR

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By: [signature]

By: [signature] Assistant Sec

LESSEE

ATARI, INC., a DELAWARE CORPORATION

By: [signature] President

By: [signature] Secretary

Prudential

ADDENDUM TO LEASE BETWEEN THE PRUDENTIAL INSURANCE COMPANY OF AMERICA, LESSOR, AND ATARI, INC., LESSEE, FOR PREMISES AT 390 CARIBBEAN DRIVE, SUNNYVALE, CALIFORNIA, DATED DECEMBER 17, 1976

XXXX CONSTRUCTION OF TENANT IMPROVEMENTS

LESSOR shall pay all costs (hereinafter called the "Tenant Improvement Work Costs") of performing the Tenant Improvement Work, as outlined on Exhibit "B" attached hereto, up to a maximum cost of Two Hundred Fifteen Thousand and No/100 Dollars ($215,000.00). The Tenant Improvement Work Costs shall include, but not be limited to:

(a) All costs of obtaining building permits and other necessary authorizations from the City of Sunnyvale;

(b) All costs of installing utility conduits necessary to connect the Premises with existing utility transformer pads;

(c) All costs of installing required telephone conduits in the Premises;

(d) All direct and indirect costs of procuring and installing tenant improvements in the Premises, including, without limitation, the cost of all on-site supervisory and administrative staff, office, equipment and temporary services rendered by LESSOR'S contractor in connection with the Tenant Improvement Work;

(e) A design and construction fee payable to LESSOR'S architectural and engineering firm in an amount equal to seven and two-tenths per cent (7.2%) of the aggregate of the costs referred to in paragraphs (a) through (e) of this section VI.

(f) A fee payable to Adamson Associates for checking, auditing and certifying the costs incurred by LESSOR'S contractor in connection with the Tenant Improvement Work (such fee shall not exceed Five Thousand Three Hundred and No/100 Dollars ($5,300.00) for all Tenant Improvement Work completed prior to occupancy;

(g) All fees payable to LESSOR'S architectural and engineering firm if it is required by Lessee to redesign any portion of the Tenant Improvement Work following LESSEE'S approval of the preliminary plans therefore (such fee to be an amount equal to two hundred fifty per cent (250%) of the total personnel expenses incurred by LESSOR'S architectural and engineering firm, as a result of such redesign work).

(h) The cost of $47,300.00 expended by LESSOR to increase the sprinkler system flow to .5 gallons per minute over the most remote 3,000 square feet of the PREMISES, designed to meet LESSEE'S insurance carrier's approval, including increased underground water supply to an eight (8") inch line, increase number of sprinkler risers to three (3), provide separate riser for future rack sprinkler system, provide additional trunk lines, branch lines, and sprinkler heads.

In no event shall the Tenant Improvement Work Costs include any costs of procuring or installing in the Premises any trade fixtures, equipment, furniture, furnishings, telephone equipment or other personal property to be utilized in the Premises by LESSEE. In the event that the Tenant Improvement Work Costs exceed Two Hundred Fifteen Thousand and No/100 Dollars ($215,000.00), such excess costs are approved in writing by LESSEE, then such excess costs shall be paid by LESSEE.

PLEASE INITIAL

XXXXI RENTAL ADJUSTMENT

The base rental for the PREMISES is $12,900.00 per month for the completed shell, base year taxes, assessments, building insurance, and common area maintenance. Tenant improvements to be provided by LESSOR, as outlined in Article XXXX above and shown on Exhibit "B" attached hereto are estimated at $215,000.00, which raise the monthly rent to $15,738.00 as set forth in Article 5 hereof. In the event the Final Tenant Improvement costs are less than the estimated costs, the rental provided for in Article V hereof shall be reduced during this base term of this lease by an amount equal to $13.20 per month for each $1,000 that the actual costs are less than the $215,000.00 estimated cost.

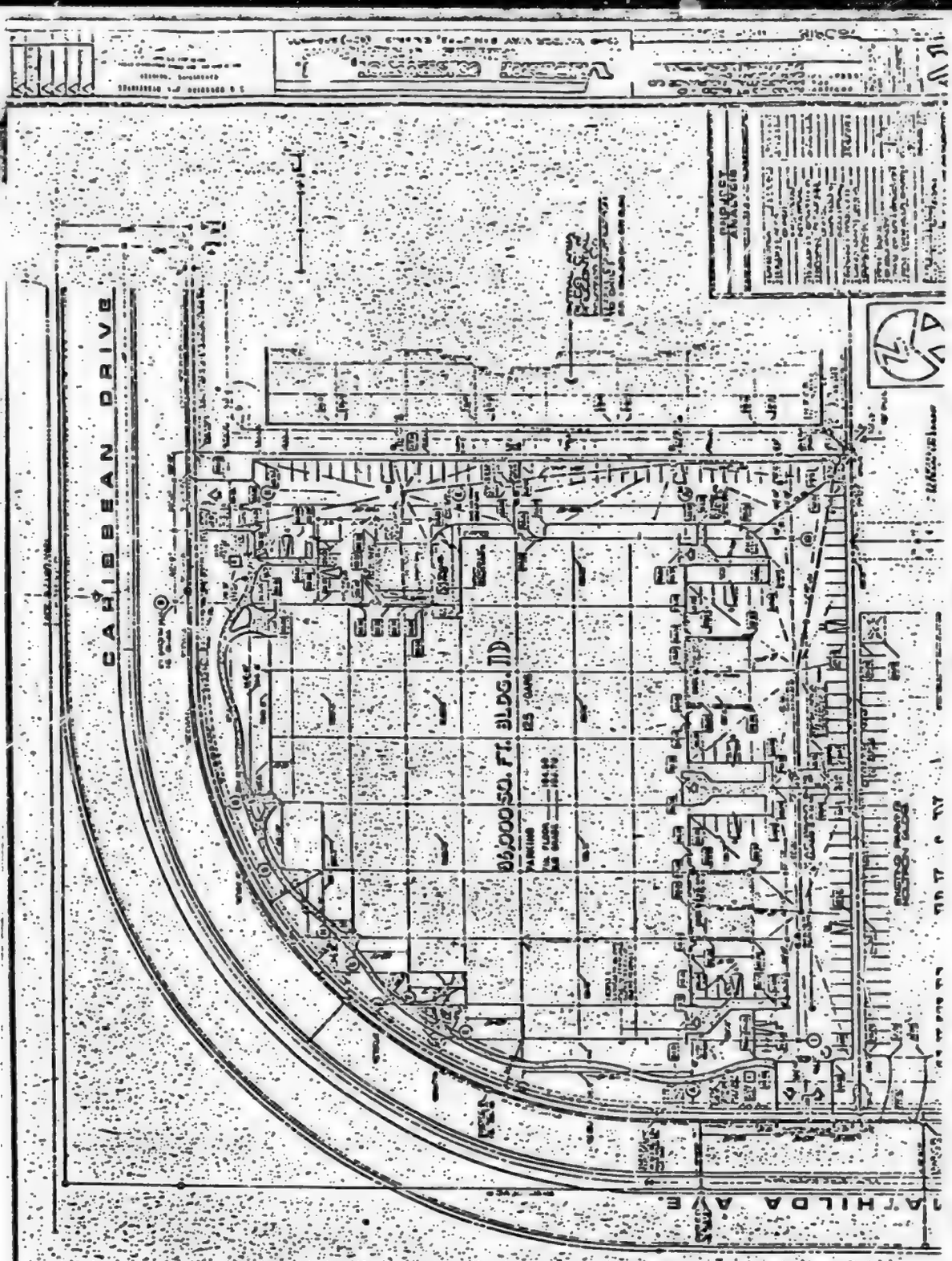
XXXXII RENEWAL OPTIONS.

At the expiration of the original five (5) year term hereof, LESSEE may extend this lease for two (2) additional renewal terms of five (5) years each, by giving LESSOR written notice of LESSEE's intention to do so at least one hundred eighty (180) days prior to the expiration of the then lease term of this lease. Such renewal terms shall be upon all of the terms and conditions hereof, except that the monthly rental for such renewal term shall be adjusted to reflect the percentage increase, if any, in the cost of living during the previous sixty (60) month period respectively (or the closest comparable period then available and mutually acceptable) as measured by the Consumer Price Index for all Items, San Francisco-Oakland Bay Area, publixhed by the United States Department of Labor, Bureau of Labor Statistics. In the event the index specified above is either unavailable or is no longer published, the most comprehensive official index then published by the United States Department of Labor, Bureau of Labor Statistics which most closely approximates the index specified, shall be substituted in place thereof.

In no event shall the rental paid during the renewal period be less than the rental paid during the previous lease term herein, nor increased by more than twenty (20%) percent, for each successive five (5) year option period.

XXXXIII DELAYS.

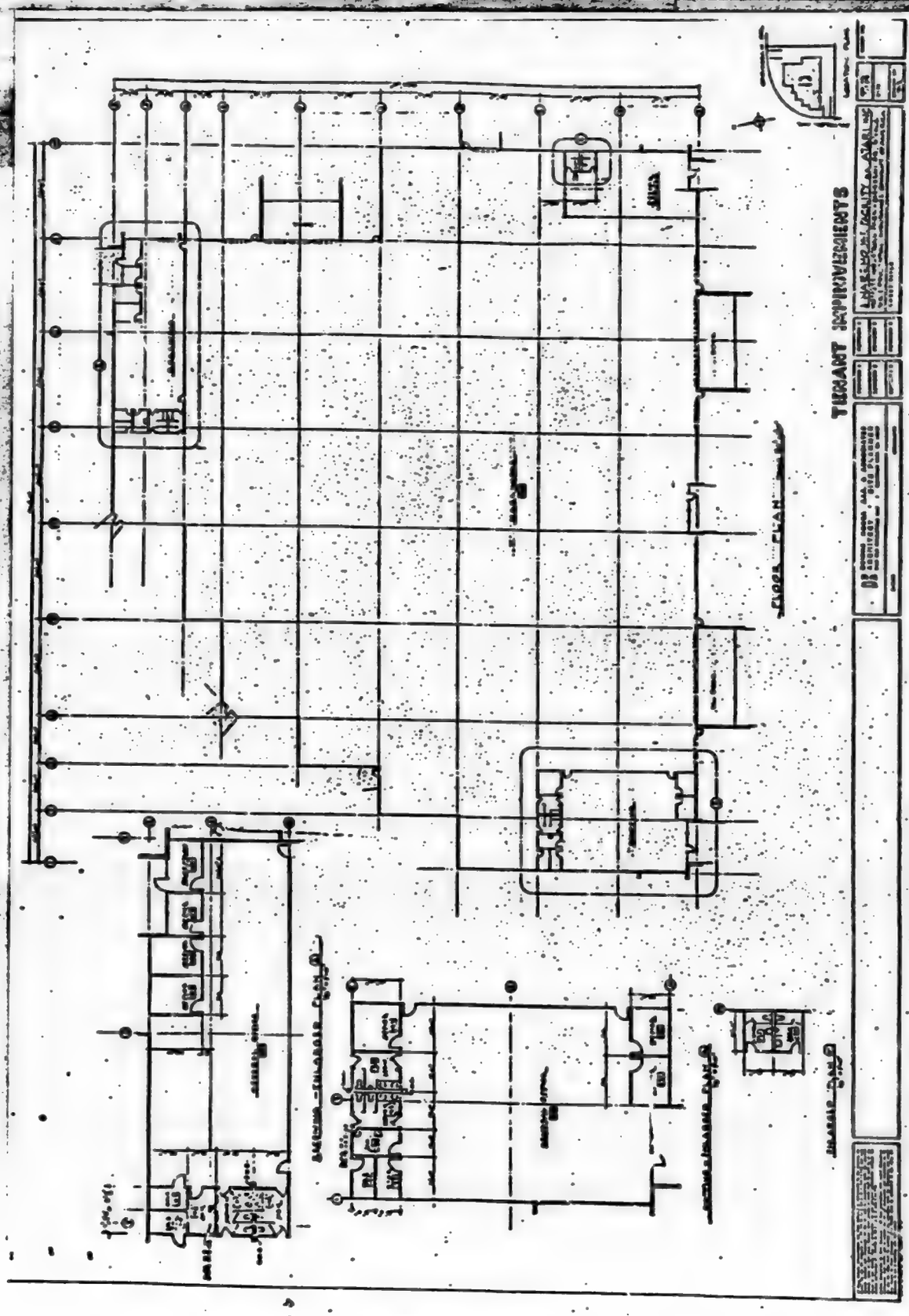
Neither LESSOR nor LESSEE shall be responsible to the other for delay or failure to meet any condition or covenant in this lease caused by strikes, lockouts, acts of God, or any other cause which is beyond the control of such party. Any delay due to such causes shall not be deemed a breach of this lease. It being specifically agreed that any time limit provision contained in this lease shall be extended for the same period of time lost by causes set forth herein above, provided that such extension shall not apply to the time within which the payment of any money is due herein or to extend the term of this lease. In any event, if LESSOR, for any reason whatsoever, cannot deliver possession of the Premises to LESSEE by June 1, 1977, this Lease shall be voidable at LESSEE'S option, provided further that LESSEE's obligation to pay rent under Article 5 of this lease shall not commence until LESSOR has tendered of the PREMISES to LESSEE in the condition required by this lease including the completion of construction of all Tenant Improvements.



PREMISES

390 Caribbean Drive, Sunnyvale, California 94086, 86,000 sq. ft. warehouse and distribution building for Atari, Inc.

EXHIBIT A



TENANT IMPROVEMENTS

390 Caribbean Drive, Sunnyvale, California 94086, 86,000 sq. ft. warehouse and distribution building for Atari, Inc.

EXHIBIT "B"

DECLARATION OF PROTECTIVE COVENANTS
MOFFETT INDUSTRIAL PARK NO. 1

THIS DECLARATION, made this 4th day of January, 1968, by **MOFFETT PARK ASSOCIATES**, a partnership, the members of which are Atkinson Development Company, a California corporation, Ostrander Construction Company, an Oregon corporation, and R.A. Trippeer, Inc., a Nevada corporation,

WITNESSETH:

WHEREAS Moffett Park Associates is the owner of that certain real property located in the City of Sunnyvale, County of Santa Clara, State of California, described as follows (hereinafter called "Moffett Industrial Park No. 1"):

Parcels 2, 3 and 4 as shown upon that certain map entitled "Parcel Map for: Guy F. Atkinson Company being a portion of Rancho Pastoria De Los Borregas, Crossman Sub. No. 2, T.J. Murphy Sub. No. 3," which map was filed for record in the Office of the Recorder of the County of Santa Clara, State of California, on September 13, 1966, in Book 214 of Maps, at pages 20 through 23;

and

WHEREAS Moffett Park Associates proposes to subdivide Moffett Industrial Park No. 1 and to subject it to the following restrictions:

NOW, THEREFORE, Moffett Park Associates hereby declares that Moffett Industrial Park No. 1 is and shall be held, conveyed, encumbered, leased and used subject to the following uniform restrictions, covenants and equitable servitudes in furtherance of a plan for the subdivision, improvement and sale thereof and to enhance the value, desirability and attractiveness of Moffett Industrial Park No. 1; the restrictions set forth herein shall run with the real property included within Moffett Industrial Park No. 1 and shall be binding upon all persons owning or acquiring any interest in such real property or any part thereof, shall inure to the benefit of every portion of Moffett Industrial Park No. 1 and any interest therein and shall inure to the benefit of and be binding upon each successor in interest of Moffett Park Associates and may be enforced by Moffett Park Associates or its successors in interest or by any Owner (as defined in Article I below) or his successors in interest.

I. GENERAL PROVISIONS.

A. Definitions.

1. "Architectural Control Committee" means MPA, or any committee which MPA may appoint by an appropriate instrument recorded with the Santa Clara County Recorder.
2. "MPA" means (a) Moffett Park Associates or (b) Moffett Industrial Park No. 1 Owners Association upon the transfer of the rights and duties of Moffett Park Associates to such Association in accordance with Article VIII.
3. "Lot" means each lot shown on the parcel or subdivision map, or maps for Moffett Industrial Park No. 1.
4. "Site" means a parcel consisting either of a Lot, a portion of a Lot, contiguous Lots, or portions of contiguous Lots.
5. "Improvement" means all improvements to a Site including, but without limitation, buildings, loading areas, trackage, parking areas, pavement, poles, fences, landscaping, signs and structures of any type.
6. "Building" means the main portion of any building or similar structure and all projections or extensions thereof, including garages, outside platforms and docks.
7. "Owner" means the person or persons, partnership or corporation in whom title to a Site is vested, as shown by the official records of the Office of the County Recorder of Santa Clara County. "Owner" does not mean mortgagees, trustees and beneficiaries of deeds of trust or holders of any indebtedness secured by a mortgage or deed of trust.

B. Purpose of Restrictions.
The purpose of these covenants, conditions and restrictions is to insure proper development and use of Moffett Industrial Park No. 1, to protect the Owner of each Site against such improper development and use of other Sites as will depreciate the value of his Site, to prevent the erection of structures of unsuitable or inharmonious design or construction, to secure and maintain sufficient setbacks from streets and between structures, to maintain Common Landscaping (as defined in Article V) and in general to provide for a high quality of improvement of Moffett Industrial Park No. 1 in accordance with a general plan.

II. REGULATION OF IMPROVEMENTS.

A. Minimum Setback Lines.
No Improvement shall be constructed upon any Site within fifty (50) feet of the right-of-way line of any public street. No Improvement other than landscaping, paving and fences shall be constructed upon any Site within twenty (20) feet of any other Site. The Architectural Control Committee may approve lesser setback lines if in its opinion a variance would be compatible with the general development of Moffett Industrial Park No. 1.

B. Ground Coverage.
No more than forty-five per cent (45%) of the surface of any Site shall be covered with a Building or Buildings.

C. Construction Operations.
Construction of all Improvements shall be expedited so that none shall remain in a partially finished condition any longer than reasonably necessary for the completion thereof.

D. Excavation.
No excavation shall be made on, and no sand, gravel or soil shall be removed from, any Site, except in connection with the construction of Improvements, and upon completion thereof, exposed openings shall be backfilled, and disturbed ground shall be graded, leveled and paved or landscaped.

E. Landscaping.
Within ninety (90) days of the occupancy or completion of any Building on a Site, whichever occurs first, such Site shall be landscaped in accordance with plans approved by the Architectural Control Committee. The Owner of the Site shall maintain such landscaping in good order and condition.

F. Signs.
No billboard or advertising signs shall be permitted on any Site other than those approved by the Architectural Control Committee which identify the name, business and products of the person or firm occupying the Site or offer the Site for sale or lease.

G. Parking Areas.
Each Site shall have facilities for parking sufficient to serve the business conducted thereon without using adjacent streets therefor, and no use shall be made of any Site which would require parking in excess of the parking spaces on the Site. In any event, the number and size of the parking spaces on each Site shall conform with all ordinances of the City of Sunnyvale applicable with respect thereto. Parking areas shall be laid out and constructed according to plans approved by the Architectural Control Committee and shall be maintained thereafter in good condition. Except with the approval of the Architectural Control Committee no parking shall be permitted within fifty (50) feet of the right-of-way line of any street or between any Building and any street.

H. Loading Areas.
All vehicle loading and unloading in connection with an Owner's business shall be conducted upon his Site, and sufficient space shall be provided therefor. Loading Areas shall be screened from view from streets and adjoining properties by a visual barrier not less than six (6) feet in height. Except with the prior written approval of the Architectural Control Committee, loading areas shall not be located between any Building and any street or any closer than seventy-five (75) feet to the right-of-way line of any street.

I. Storage Areas.
No materials, supplies, equipment or trash containers shall be stored on a Site except inside a Building or behind a visual barrier not less than six (6) feet in height or rising two (2) feet above the stored materials, supplies or equipment, whichever is higher, screening such storage areas from view from streets and adjoining Sites. Except with the prior written approval of the Architectural Control Committee, storage areas shall not be located between any Building and any street.

J. Building Regulations.
All Buildings shall be constructed and maintained in accordance with the following standards unless an exception is approved in writing by the Architectural Control Committee:

1. Exterior walls shall be of masonry, concrete or approved equal material.
2. Exterior walls shall be painted or otherwise finished in a manner acceptable to the Architectural Control Committee. Exterior walls shall not be repainted or refinished unless and until the Architectural Control Committee shall have approved the color or refinishing materials to be used.
3. All Buildings shall be maintained in good order and repair and condition. All exterior painted surfaces shall be maintained in first-class condition and shall be repainted at least once every five (5) years.
4. All electrical, telephone and other utility lines shall be underground and shall not be exposed on the exterior of any Building.
5. All electrical and mechanical apparatus, equipment, fixtures (other than lighting fixtures) conduit, ducts, vents, flues and pipes located on the exterior of any Building shall be concealed from view and shall be architecturally treated in a manner acceptable to the Architectural Control Committee.

III. APPROVAL OF PLANS.

No Improvement shall be erected, placed, altered, maintained or permitted to remain on any Site until plans and specifications showing plot layout and all exterior elevations, with materials and colors thereof and structural design, signs and landscaping shall have been submitted to and approved in writing by the Architectural Control Committee. Such plans and specifications shall be submitted in writing over the signature of the Owner of the Site or his authorized agent. Approval shall be ——, among other things, on adequacy of Site dimensions; adequacy of structural design; effect of location and use of improvements on neighboring Sites; improvements, operations, and uses; relation of topography, grade, and finished ground elevation of the Site being improved to that of neighboring Sites; proper facing of main elevation with respect to nearby streets; and conformity of the plans and specifications to the purpose and general plan and intent of the Declaration. The Architectural Control Committee shall not arbitrarily or unreasonably withhold its approval of such plans and specifications. If the Architectural Control Committee fails either to approve or disapprove such plans and specifications within thirty (30) days after the same have been submitted to it, it shall be conclusively presumed that the Architectural Control Committee has approved said plans and specifications, subject, however, to the restrictions contained in Articles II and IV hereof.

Neither the Architectural Control Committee nor its successors or assigns shall be liable in damages to anyone submitting plans to them for approval, or to any Owner by reason of mistake in judgment, negligence, or nonfeasance arising out of or in connection with the approval or disapproval or failure to approve any such plans. Every person who submits plans to the Architectural Control Committee for approval agrees, by submission of such plans, and every Owner agrees, by acquiring title to a Site, that he will not bring any action or suit against the Architectural Control Committee to recover any such damages.

Notwithstanding anything to the contrary contained herein, after the expiration of one (1) year from the date of issuance of a building permit by municipal or other governmental authority for any Improvement, said Improvement shall, in favor of purchasers and encumbrancers in good faith and for value, be deemed to be in compliance with all provisions of this Article III, unless actual notice of such noncompliance or noncompletion, executed by the Architectural Control Committee, shall appear of record in the Office of the Recorder of Santa Clara County, California, or unless legal proceedings shall have been instituted to enforce compliance or completion.

IV. REGULATION OF OPERATIONS AND USES.

A. Permitted Operations and Uses.

1. Except as provided in paragraphs B and C below, any industrial use will be permitted on a Site including, but without limitation, manufacturing, processing, storage, wholesale, office, laboratory, professional and research and development. Such retail uses as may be required for the convenience of Owners and their employees shall be permitted on Parcels 3 and 4 of Moffett Industrial Park No. 1 and such retail uses may include, but without limitation, restaurants, drug stores, barber and beauty shops, shoe repair shops, cleaners, motels, post offices, banks, and automobile service stations. In no event shall any retail use be permitted on Parcel 2 of Moffett Industrial Park No. 1. Such municipal, governmental and public utility uses as may be necessary or appropriate shall be permitted.

B. Prohibited Operations and Uses.
No Site shall be used as a junk yard, stock yard, or slaughter yard or for commercial excavation of building or construction materials, fat rendering or distillation of bones, dumping, disposal, incineration or reduction of garbage, sewage, offal, dead animals or refuse, or the smelting of iron, tin, zinc or other ores or the prospecting or drilling for natural gas, oil or like substances, except with the prior written permission of the Architectural Control Committee, and then only in such manner as will not materially inconvenience other Owners or materially depreciate the value of adjacent property.

C. Nuisance.
No noxious or offensive activity shall be carried on nor shall anything be done on any Site which may be or become an annoyance or nuisance to the Owners or occupants of other Sites or which will be offensive by reason of odor, fumes, dust, dirt, fly ash, smoke, noise, glare or which will be hazardous by reason of danger of fire or explosion.

V. COMMON LANDSCAPING.

The Owner of each Site shall maintain landscaping existing thereon at the time of purchase ("Common Landscaping") in a condition that meets the approval of the Architectural Control Committee. In the event that the Owner of any Site does not maintain Common Landscaping in such condition or the landscaping described in Article II E as thereon provided, MPA or its agents shall have the right to maintain such landscaping in such condition. MPA or its agents shall have the right at any reasonable time to enter onto any Site for the purpose of such maintenance and for such other purposes as are reasonably related thereto. MPA shall use due diligence and reasonable care in repairing, maintaining and installing Common Landscaping to see that such repair, maintenance and installation does not interfere with the Owner's use of its Site. In the event that MPA or its agents should undertake any such maintenance on any such Site, the Owner thereof shall reimburse MPA for all of MPA's costs incurred in such maintenance. In any legal proceeding brought by MPA to recover such costs, the Owner shall be obligated to pay for the costs and expenses of such proceeding, including reasonable attorneys' fees.

VI. ENFORCEMENT.

A. Interpretation.
In case of uncertainty as to the meaning of any article, section, subsection, paragraph, sentence, clause, phrase or word of the Declaration the interpretation of MPA shall be final, conclusive and binding upon all interested parties.

B. Abatement and Suit.
Violation or breach of any restriction herein contained shall give to MPA and every Owner the right to enter the property upon or as to which said violation or breach exists and to summarily abate and remove at the expense of the Owner thereof, any structure, thing or condition that may be or exist thereon contrary to the intent and meaning of the provisions hereof, or to prosecute a proceeding at law or in equity against the person or persons who have violated or are attempting to violate any of these restrictions to enjoin or prevent them from doing so, to cause said violation to be remedied or to recover damages for said violation.

In any legal or equitable proceeding for the enforcement of this Declaration, the losing party or parties shall pay the attorneys' fees of the prevailing party or parties, in such amount as may be fixed by the court in such proceedings. All remedies provided herein or at law or in equity shall be cumulative and not exclusive.

C. Inspection.
MPA may from time to time at any reasonable hour or hours, enter and inspect any property subject to these restrictions to ascertain compliance therewith.

D. Failure to Enforce Not a Waiver of Rights.
Except as provided in the last paragraph of Article III hereof, the failure of MPA or any Owner to enforce any restriction contained herein shall in no event be deemed to be a waiver of the right to do so thereafter nor of the right to enforce any other restriction contained herein.

VII. EXTINGUISHMENT, CONTINUATION AND MODIFICATION.

This Declaration, every provision hereof and every covenant, condition and restriction contained herein shall continue in full force and effect for a period of forty (40) years from the date hereof; provided, however, that this Declaration, or any provision hereof, or any covenant, condition or restriction contained herein, may be terminated, extended, modified, or amended with the written consent of the Owners of sixty-five per cent (65%) of the land in Moffett Industrial Park No. 1 (exclusive of portions thereof now or hereafter dedicated to public use); provided, further, that so long as Moffett Park Associates owns at least twenty per cent (20%) of Moffett Industrial Park No. 1, no such termination, extension, modification or amendment shall be effective without the written consent of Moffett Park Associates. No such termination, extension, modification or amendment shall be effective until a proper instrument in writing has been executed and acknowledged and recorded in the Office of the Recorder of Santa Clara County, California.

VIII. MOFFETT INDUSTRIAL PARK NO. 1 OWNERS ASSOCIATION.

A. Membership.
Each Owner shall be a member of the Moffett Industrial Park No. 1 Owners Association, an unincorporated association (hereinafter called the "Association").

B. Transfer of Rights and Duties.
The rights and duties of MPA under this Declaration shall be transferred to and automatically assumed by the Association upon the earliest of the following to occur:

1. The sale of ninety per cent (90%) of Moffett Industrial Park No. 1 by Moffett Park Associates to Owners as evidenced by the official records of the Santa Clara County Recorder; or

2. The recordation by MPA of an appropriate instrument with the Santa Clara County Recorder transferring the rights and duties of MPA under this Declaration to the Association.

C. Organization.
The members of the Association may at any time meet and adopt by-laws or rules of procedure to govern the operation of the Association. Until such by-laws or rules of procedure are adopted, meetings of the Association may be called by any member thereof upon seven (7) days' written notice to each member setting forth the time and place thereof, provided that notice may be waived in writing at any time by any member or members not so notified; twenty-five per cent (25%) of the members of the Association shall constitute a quorum; and the Association may act by a vote of a majority of its members present at a meeting, duly called, at which a quorum is present or without a meeting by unanimous written consent of its members.

IX. ASSIGNABILITY OF MOFFETT PARK ASSOCIATES RIGHTS AND DUTIES.

Any and all of the rights, powers and reservations of Moffett Park Associates herein contained may be assigned to any person, corporation or entity which assumes in writing the duties of Moffett Park Associates pertaining to the particular rights, powers and reservations assigned, and thereafter to the extent of such assignment, such person, corporation or entity shall have the same rights and powers and be subject to the same obligations and duties as are herein given to and assumed by Moffett Park Associates.

X. CONSTRUCTIVE NOTICE AND ACCEPTANCE.

Every Owner is and shall be conclusively deemed to have consented and agreed to every covenant, condition and restriction contained herein, whether or not any reference to this Declaration is contained in the instrument by which such Owner acquired an interest in any portion of Moffett Industrial Park No. 1.

IN WITNESS WHEREOF, Moffett Park Associates, the declarant herein, has caused its name to be hereunto subscribed as of the day and year first above written.

MOFFETT PARK ASSOCIATES,

By Atkinson Development Company,

By_____
Vice President

By_____
Assistant Secretary

By Oxender Construction Company,

By_____

By_____

By R. A. Tripper, Inc.,

By_____

By_____

FIRST AMENDMENT TO LEASE

THIS FIRST AMENDMENT is entered into as of the 3rd day of March, 1977, by and between THE PRUDENTIAL INSURANCE COMPANY OF AMERICA (hereinafter called "LESSOR") and ATARI, INC. (hereinafter called "LESSEE").

RECITALS:

A. On the 17th day of December 1976, LESSOR AND LESSEE entered into a lease of certain premises located at 390 Caribbean Drive, Sunnyvale, California 94086.

B. Under the terms of the Lease in Paragraph XXXX, LESSOR agreed to invest up to a maximum of $215,000.00 in tenant improvement work costs.

C. As shown in Exhibit A attached hereto LESSOR's total tenant improvement work costs are $266,600.00 and the additional costs are $51,600.00. LESSOR shall install said additional tenant improvements at LESSOR's sole cost and expense. LESSEE agrees to pay an additional $860.00 per month as consideration for LESSOR's installation of said additional tenant improvements.

PLEASE INITIAL

NOW THEREFORE, IT IS MUTUALLY AGREED:

1. LESSEE will immediately pay LESSOR $860.00 as additional security deposit.

2. LESSEE will immediately pay LESSOR $860.00 to cover the increase in rent for the period from April 1, 1977 through April 30, 1977.

3. The rent due on May 1, 1977 and each succeeding month thereafter over the base term of the lease is $16,598.00.

PLEASE INITIAL

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

BY: _____
Lee Cashion
Investment Manager

ATARI, INC.

BY: _____

Title: _____

SECOND AMENDMENT TO LEASE

THIS SECOND AMENDMENT is entered into as of the twenty-first day of June, 1977, by and between The Prudential Insurance Company of America (hereinafter called "LESSOR"), and Atari, Inc. (hereinafter called "LESSEE").

RECITALS:

A. On the 17th day of December, 1976, LESSOR and LESSEE entered into a lease of certain premises located at 390 Caribbean Drive, Sunnyvale, California 94086.

B. The term of the lease was for five years, commencing on the 1st day of April, 1977, and ending on the 31st day of March, 1982.

C. Due to construction delays LESSEE could not occupy said premises until the 1st of May, 1977.

NOW THEREFORE, IT IS MUTUALLY AGREED:

1. The term of the lease shall be for a period of five years, commencing on the 1st day of May, 1977, and ending on the 30th day of April, 1982.

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

BY: Lee Cashion

Lee Cashion
Investment Manager

ATARI, INC.

BY: Joseph H. Keenan

TITLE: _____

Legal

AMENDMENT THREE TO LEASE

THIS AGREEMENT, executed at Sunnyvale, California, by and between THE PRUDENTIAL INSURANCE COMPANY OF AMERICA, a New Jersey corporation (hereinafter "Landlord"), and ATARI, INC., a Delaware corporation (hereinafter "Tenant"), for the Premises located at 390 Caribbean Drive, Sunnyvale, California, is entered into this 11TH day of MARCH, 1982.

RECITALS

WHEREAS, Landlord by Lease, dated December 17, 1976, amended by First Amendment To Lease dated March 3, 1977, and Second Amendment To Lease dated June 21. 1977, did lease to Tenant, an 86,000 square foot building, located at 390 Caribbean Drive, Sunnyvale, California; and

WHEREAS, the term of said Lease commenced May 1, 1977, to terminate April 30, 1982, for a period of five (5) years with an option to extend this Lease for two (2) additional terms of five (5) years each; and

WHEREAS, by the First Amendment To Lease, the gross rental for the Premises is SIXTEEN THOUSAND FIVE HUNDRED NINETY-EIGHT AND NO/100 DOLLARS ($16,598.00) per month including base year real estate taxes, common area maintenance and fire and extended coverage insurance; and

WHEREAS, Tenant desires to exercise its first renewal option for an additional five (5) years as stated in the Lease.

NOW, THEREFORE, IT IS MUTUALLY AGREED:

1. The termination date of the Lease shall be extended from April 30, 1982, to April 30, 1987.

2. Commencing May 1, 1982, the rental for the Premises shall be increased from SIXTEEN THOUSAND FIVE HUNDRED NINETY-EIGHT AND NO/100 DOLLARS ($16,598.00) to NINETEEN THOUSAND NINE HUNDRED SEVENTEEN AND 60/100 DOLLARS ($19,917.60) per month.

3. All other terms and conditions of the Lease shall remain in full force and effect.

4. IN WITNESS WHEREOF, the parties herein have executed this Amendment Three To Lease as of the date hereinabove.

TENANT: ATARI, INC.

By: _____

Title: _____

LANDLORD: THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By: _____
Lee Cashion

Title: Vice President
Property Development

Exhibit 22

Exhibit 22 Subsidiaries of the Registrant

ATARI CORPORATION
SUBSIDIARY COMPANIES

(1) Tramel Trading Limited, a Nevada corporation with principal offices at 1196 Borregas Avenue, Sunnyvale CA 94086

(2) Atari Technology Corp., a Nevada corporation with principal offices at 1196 Borregas Avenue, Sunnyvale CA 94086

(3) Atari "US" Corp., a Nevada corporation with principal offices at 1196 Borregas Avenue, Sunnyvale CA 94086

(4) Atari Corp. (UK) Limited, a UK company with principal offices at Intercity House, Railway Terrace, Slough, Berkshire, ENGLAND SI2 5BZ

(5) Atari Corp. (Deutschland) GmbH, a West German company with principal offices at Frankfurter Strase 89-91, 6096 Raunheim, WEST GERMANY

(6) Atari France S.A., a French company with principal offices at 9, Rue Sentou, 92150 Suresnes, FRANCE

(7) Atari Italia S.P.A., an Italian company with principal offices at Via Del Lavoratori 25, 20092 Cinisello Balsamo, Milan, ITALY

(8) Atari Taiwan Manufacturing Corp., a Taiwan company with principal offices at 31, Min-Chu Road, Chu-Wei, Tam-Shui, P.O. Box 10, Tam-Shui, Taipei, TAIWAN

(9) Atari Japan Corporation, a Japanese company with principal offices at Toranomon Kiyoshi Building 3F, 4-3-10 Toranomon, Minato-Ku, Tokyo 105, JAPAN

(10) Advanced Circuit Limited, a Hong Kong company. Owned 95% by Atari "US" Corp.

(11) Atari (Benelux) B.V., a Dutch company with principal offices at Hagenweg 7B, Vianen, HOLLAND

(12) Atari (Canada) Corp., a Canadian company with principal offices at 90 Gough Road, Markham, Ontario, CANADA

(13) Atari Explorer Publications Corp., a New Jersey corporation with principal offices at 7 Hilltop Road,